blue mountains
City Council

ATTACHMENT 13

Resourcing Strategy
2014 – 2024

At the time of publication and public exhibition of this document, each of the proposed options for *Resourcing Our Future* assumed a rate peg of 3.0% per annum over the 10 years of the *Long Term Financial Plan*. This estimate was made given historical rate pegs, recent reductions in the rate peg and indications of future rate pegs.

An announcement has recently been made to set the rate peg for 2015/16 at 2.4%. There is no impact to overall revenue under Option 1 or Option 2 as a result of this rate peg announcement, since the Council would be seeking a special variation in 2015/16 under both of these options. There is, however, an increase to the additional revenue available as a result of the special variation under both of these options.

In regards to Option 3 (baseline scenario), the announcement results in slightly less revenue under this option due to the lower than expected rate peg.

The tables and figures in this document still reflect the assumed rate peg of 3.0% for 2015/16, which was our best estimate at the time of publication.

our city | our future

SUSTAINABLE BLUE MOUNTAINS

RESOURCING STRATEGY 2014–2024

December 2014

Including three possible options for Resourcing Our Future

blue mountains City Council

Blue Mountains City Council acknowledges that the City of the Blue Mountains is located on the traditional lands of the Darug and Gundungurra peoples. In addition, Blue Mountains City Council recognises the unique position Aboriginal people have in the history and culture of the Blue Mountains. It is acknowledged that Aboriginal peoples in the Blue Mountains have strong and ongoing connections to their traditional lands, cultures, heritage and history. Aboriginal people are recognised as the "Traditional Owners of the land" and it is important that this unique position is incorporated into Council's community protocols, official ceremonies and events

Introduction

This updated 10 year *Resourcing Strategy* was adopted by Council on 9 December 2014 following public exhibition of the document.

Public exhibition and consultation on the *Draft Resourcing Strategy* ran from 4 August 2014 to 15 September 2014 in accordance with Council's adopted *Community Engagement Strategy for Resourcing Our Future.*

The exhibited *Draft Resourcing Strategy* presented three financial scenarios or funding options, each of which balanced affordable levels of service provision against available revenue over the next 10 years. In summary these included:

Option 1: Improve Service Levels - with additional funding from a Special Rate Variation to reverse the decline in the City's built infrastructure (from 21% in poor condition to 17% by 2024) and achieve better assets (less in poor condition), improve emergency preparedness and response, continue to protect the environment (re-instate the Environment Levy) and improve services to the community

Option 2: Maintain Service Levels - with additional funding (less than Option 1) from a Special Rate Variation to stabilise the City's built assets at the current level of 21% in poor condition and only maintain built infrastructure rather than renew and upgrade it, retain existing emergency preparedness and response capability, continue to protect the environment (re-instate the Environment Levy) and only maintain services to the community with funding targeted to managing risk and possible closure of unsafe facilities.

Option 3: Reduce Service Levels - with no additional funding from a special rate variation and no continuation of the Environment Levy – resulting in a significant reduction in service levels with the proportion of the Council's $1 billion worth of built assets in poor condition increasing from 21% to 37% by 2024. Under this option the council will not be able to make required investment to maintain or improve built infrastructure, emergency preparedness and capacity, protection and restoration of the environment and there will be worse community and recreational services and closure of unsafe facilities.

A comprehensive program of community consultation and engagement was implemented. Specific engagement activities included:

- A series of five area-based community workshops with cross-section of the community;
- A public exhibition and call for submissions on the three options proposed by Council;
- A telephone survey of a representative sample of ratepayers; and
- A letter and brochure being sent to all Blue Mountains ratepayers.

A detailed report on the *Resourcing Our Future Community Engagement Outcomes* was provided to the Ordinary meeting of Council on 9 December 2014. In summary, the community engagement outcomes found there was majority support from the community for the two options proposing a special variation to rates.

The key message from community feedback was that the majority of residents did not want service levels to reduce and are willing to pay additional rates to improve or maintain service levels. The highest level of support was for Option 1:

- 58% support from participants in the five area workshops
- 55% support from public submissions
- 49% support from respondents to the telephone survey

The combined support for Options 1 and 2 for each of the specific engagement activities was:

- 94% support from participants in the five area workshops
- 78% support from public submissions
- 85% support from respondents to the telephone survey

This Resourcing Strategy on which Council has sought, and obtained, general community agreement on acceptable and affordable levels of service is Council's **Fit for the Future** road map.

Council's Resolution on this Resourcing Strategy

After considering public submissions and community engagement outcomes on this *Resourcing Strategy* Council resolved on 9 December 2014 that:

1. *The Council receives and acknowledges the substantial community responses to the community engagement and public exhibition on options for Resourcing Our Future and notes the results of this engagement including the detailed reports presented in Enclosures 1, 2 and 3;*
2. *The Council confirms its ongoing commitment to building a successful future for the Blue Mountains including delivering. within available funding, the best possible range of value for money services to the community and continuously reviewing service provision to ensure best value;*
3. *The Council endorses Option 1 for Resourcing Our Future as detailed in this report, being:*
   Option 1: Service Levels Improved - A Special Rate Variation of 6.6% in 2015/16 (including rate peg) to reinstate the Environment Levy on a permanent basis, followed by three annual increases of 9.6% (including rate peg) from 2016/17 to 2018/19 with additional funding raised remaining permanently in the rate base;
4. *The Council approves the making of an application to the Independent Pricing and Regulatory Tribunal under s508(A) of the Local Government Act 1993, if it endorses Option 1 or 2;*
5. *The Council adopts the following updated Integrated Planning and Reporting documents, supporting the Resourcing Our Future community engagement, subject to the recommended changes detailed in Enclosure 4:*
   a) *Resourcing Strategy 2014-2024, incorporating the Long Term Financial Plan (LTFP), Asset Management Policy and Strategy (AMP&S) and Workforce Management Strategy (WMS);*
   b) *Service Dashboards: Summary Service and Asset Plans (companion document to Resourcing Strategy 2014-2024); and*
   c) *Supplementary Delivery Program (2015-2019)*

[Minute No. 1231, 9/12/12]

At the time of publication and public exhibition of this document, each of the proposed options for *Resourcing Our Future* assumed a rate peg of 3.0% per annum over the 10 years of the *Long Term Financial Plan*. The community engagement process highlighted that the rate peg was only an "estimate".

However, an announcement has recently been made to set the rate peg for 2015/16 at 2.4%. This reduced rate peg does not alter the total requirement for additional funding from rate peg and special variation under Options 1 and 2. It does however, further reduce funding available under Option 3 which had assumed a 3.0% increase but will now only achieve a 2.45% increase to rating revenue. Please note that the tables and figures in this document, as well as some references to additional funding raised by special rate variations, still reflect the assumed rate peg of 3.0% for 2015/16, which was our best estimate at the time of publication.

What is a Resourcing Strategy?

Sustainable Blue Mountains 2025, the City's Community Strategic Plan, articulates the priorities and aspirations of the community for our City. It identifies where we want to be as a City by 2025 and how we will get there. These priorities cannot be achieved without sufficient resources – money, people and assets.

This *Resourcing Strategy 2014-24* outlines the Council's resourcing commitment to implementing the objectives and strategies within the Community Strategic Plan, given available resources.

The *Resourcing Strategy 2014-2024* is comprised of five parts and a companion document. The last three parts are integrated components of the strategy, required under the *Local Government Ac*t:

- Part 1 –Overview,
- Part 2 – City Context
- Part 3 – The Long-Term Financial Plan (LTFP)
- Part 4 – The Asset Management Strategy and Policy (AMS&P)
- Part 5 – The Workforce Management Strategy (WMS)
- Companion Document – Service Dashboards: Summary Service and Asset Plans

This Strategy sets out the available resources supporting implementation of the Council's four-year *Delivery Program* and annual *Operational Plan*.

The *Service Dashboards: Summary Service and Asset Plans* companion document provides a snapshot at one point in time (June 2014), of each Council Service and how the three different options for *Resourcing Our Future* impact on long-term service provision levels and capacity to maintain, renew and upgrade built assets. It was used extensively to support community engagement on how we can best achieve affordable and acceptable levels of service going forward.

This document includes the three options for *Resourcing Our future*.

This *Resourcing Strategy 2014-2024* presents the three different financial scenarios and associated funding options for *Resourcing Our Future* on which a comprehensive program of community engagement was undertaken in August and September 2014.

The Resourcing Strategy will be finalised once advice from IPART is received on the determination in respect to Council's application for a Special Rate Variation based on Option 1. IPART's determination is due on 19 May 2015.

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Resourcing our future

Our vision is to build a successful future for the Blue Mountains through improving the wellbeing of our community and the environment. How well we can achieve this vision depends, to a large extent, upon the amount of revenue we have. Within available funding, we continually strive to achieve the best possible range of 'value-for- money' services to meet the needs of our community.

Like most councils in NSW, we face significant financial challenges. Despite our best efforts, available funding is insufficient for us to maintain, let alone improve existing service levels. Factors behind this include costs rising faster than our income, other levels of government shifting costs on to us and much of the City's $1 billion worth of built assets being old and in critical need of renewal.

We face unique challenges in servicing 27 dispersed settlements and managing over 10 thousand hectares of natural bushland. As a community, the Blue Mountains also has responsibilities in managing bushfire risk and protecting the natural environment, including mitigating the impacts of development on our surrounding World Heritage Listed National Park.

To address the City's financial challenge, the Council has developed *Six Strategies for Financial Sustainability* (detailed in Part 3 of this document). A key component of these strategies is engaging the community on how best we can balance service provision with available revenue - so that we can achieve affordable and acceptable levels of service. Importantly, this *Resourcing Strategy 2014-2024* sets out three different funding options for doing this**.** These options, detailed within this document, are:

- **Option 1: Improved Service Levels (reverse decline in the City's $1billion worth of assets)**
- **Option 2: Maintained Service Levels (maintain current level of 21% of assets in poor condition)**
- **Option 3: Reduced Service Levels (assets in poor condition increase from 21% to 37% by 2024)**

Between 4 August and 15 September 2014, Council publicly exhibited this Resourcing Strategy. The large majority of public submissions (78%) were in favour of the Council seeking a special rate variation, which includes a continuation of the successful Environment Levy. The Council will now make an application to IPART, which will assess and determine Council's case for the Option 1 special rate variation, which will enable us to reverse the decline in the City's built assets, improve our capacity to prepare for and respond to natural disasters and continue to protect our environment. Our driving purpose is to respond to the voice of our community and provide the best value services we can to meet needs and improve our City. Increasing rates is a means to this end.

I would like to assure you that the Council is committed to meeting the needs of our community and improving the financial sustainability of the City.

Mark Greenhill
Mayor of Blue Mountains City Council

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List of Acronyms

ABS	Australian Bureau of Statistics
ACLG	Australian Classification of Local Governments
AMIP	Asset Management Improvement Program
AMP	Asset Management Policy
AMS	Asset Management Strategy
APZ	Asset Protection Zones
BIRR	Built Infrastructure Renewal Ratio
BMCC	Blue Mountains City Council
CSP	Community Strategic Plan (i.e. Sustainable Blue Mountains 2025)
ELT	Executive Leadership Team
FAG	Financial Assistance Grant (from Australian Government)
FSR	Floor Space Ratio
GRSG	Governance and Risk Steering Group
IPART	Independent Pricing and Regulatory Tribunal
IPF	Integrated Planning Framework
IRSD	Index of relative Socio-economic Disadvantage (one of the SEIFA indices)
LGA	Local Government Area
LGPMC	Local Government and Planning Ministers' Council
LGSA	Local Government and Shires Association
LTFP	Long-Term Financial Plan 2014-2024
NAVF	Natural Area Visitor Facility
NBN	National Broadband Network
OLG	Office of Local Government
RFS	Rural Fire Service
RMS	Roads and Maritime Service
SAMSC	Strategic Asset Management Steering Committee
SBM 2025	Sustainable Blue Mountains 2025 (the Community Strategic Plan)
SEIFA	Socio-economic Indexes for Areas (prepared by the ABS)
SES	State Emergency Service
SGC	Superannuation Guarantee Charge
SV	Special Variation (for Rates)
TCorp	Treasury Corporation (NSW Government)
UFL	Urban fringe large (council – ACLG category)
WHS	Work Health and Safety
WMF	Waste Management Facility
WMS	Workforce Management Strategy

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1. Overview

Includes overview of strategy and highlights from:

Long-Term Financial Plan (Part 3)

Asset Management Strategy and Policy (Part 4)

Workforce Management Strategy (Part 5)

The Blue Mountains Local Government Area is unique.

Surrounded by World Heritage Listed National Parks, it is the only council in NSW classified under the Australian Classification of Local Governments as category 12 - A *Large Fringe City* with a population between 70,001 to 120,000. Nationally, it is one of only four with this classification.

This means that comparison with other councils, on aspects such as operating income and expenditure, and community service provision is, in effect, impossible.

1.1 Integrated resource planning

This *Resourcing Strategy* presents three integrated strategic plans: Long-term Financial Plan (LTFP); Asset Management Strategy (AMS); and Workforce Management Strategy (WMS).

The LTFP is central to the integration of the strategic plans as it provides 10-year projected revenues that inform the financial extent to which infrastructure projects, operational expenditure and workforce resources can be provided.

The *Resourcing Strategy* informs, and is informed by, a number of other legislatively required plans and reporting frameworks as illustrated in *Figure 1-1.*

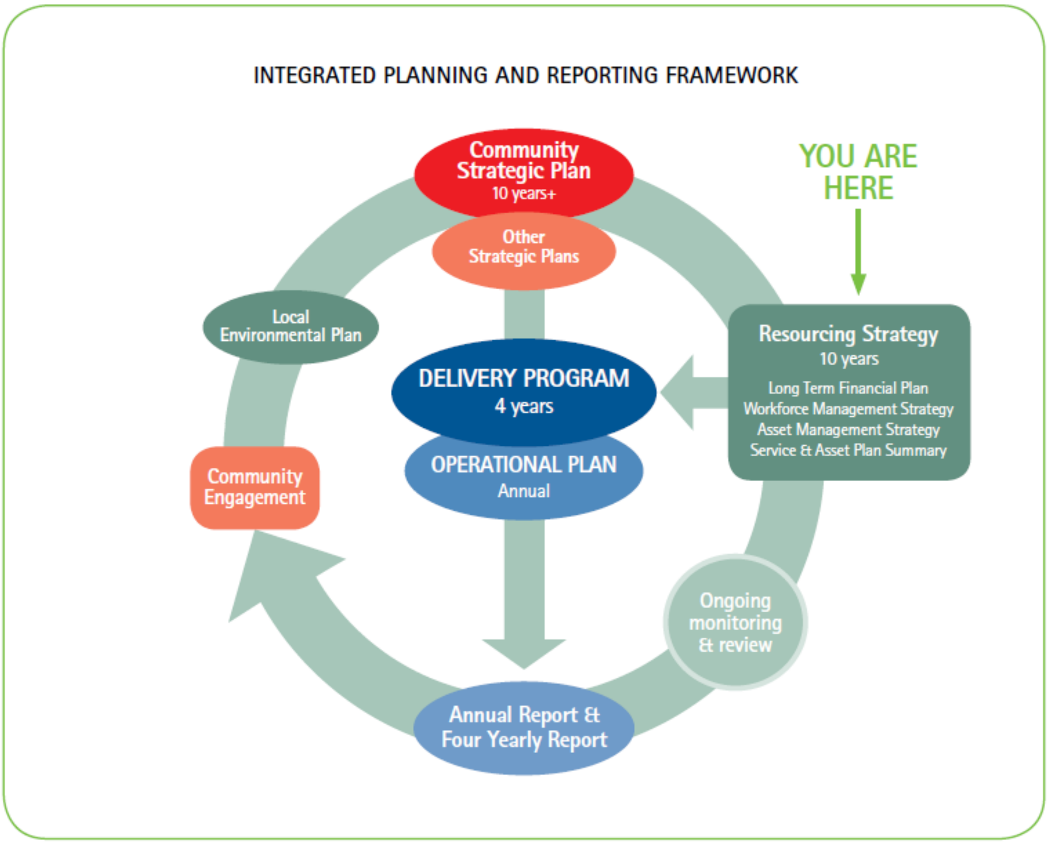


Figure 1-1 Integrated planning and reporting framework

The Council is working with all levels of government and community to achieve the implementation of our Community Strategic Plan, *Sustainable Blue Mountains 2025*. This *Resourcing Strategy* presents three different Financial Scenarios and rating options to resource this achievement.

The following sections provide a summary overview of the key components of this *Resourcing Strategy* and how the Council is addressing its financial challenge over the next 10 years so that we achieve a successful future for the City of Blue Mountains.

1.2 Financial performance

The following section provides a snapshot of the current financial performance of the Council.

Each year the Council lives responsibly within its means and has consistently ensured that its annual cash budget is balanced against available revenue. In summary, the financial position as at year end 2012-2013 resulted in $92.7 million in revenue (excluding capital) and $97.7 million in expenditure. The balance sheet shows total equity of $802.7 million.

Other key points on the Council's financial position are that:

- Cash liquidity (i.e. working capital) is very sound and the majority of the financial performance measures are above established financial benchmarks except for those relating to funding required to adequately renew built assets (the Asset Renewal Ratio and Building and Infrastructure Renewal Ratio).
- As outlined in Part 4, the City faces a significant infrastructure funding shortfall in the order of an estimated $238 million over the next 10 years *(Figure 1-2).*
- As at 30 June 2013, the Council's Loan Balance Outstanding was at $53.1 million. This debt incurs annual interest repayments of $3.6 million and principal payments of $4.0 million. The Council is actively working to reduce its debt and manage borrowings responsibly *(see Part 3, section 3.5.2).*
- While a balanced cash budget is delivered each year for operational activities, the annual Operating Result is still in deficit. Council's Operating Result (which includes depreciation and excludes capital grants) in 2012/13 was a deficit of -$5 million. This deficit result highlights that the Council does not currently have sufficient capacity, to fund on an annual basis, the required level of maintenance, renewal, upgrade and replacement of existing Council assets.

For the Council to be sustainable into the future, its operating revenues must cover operating costs, including the funding required to maintain and renew built assets. Ideally, the Council's Operating Result should be in surplus. The main issue for the Council and the City is addressing the projected infrastructure funding shortfall.

Figure 1-2 shows the Council's estimated funding gap of $238 million in managing all of its services and assets over the next 20 years. The projected available revenue is shown by the black line on the chart. The bars for each year show the projected requirement for expenditure on operations, maintenance, renewal and upgrade. Over the next 20 years, the chart reveals a funding shortfall between expenditure requirements and expected revenue. In other words, the Council does not have the ability to keep pace with the funding requirements of its $1 billion worth of built assets.

Projected Operating and Capital Expenditure 2015/16 – 2034/35

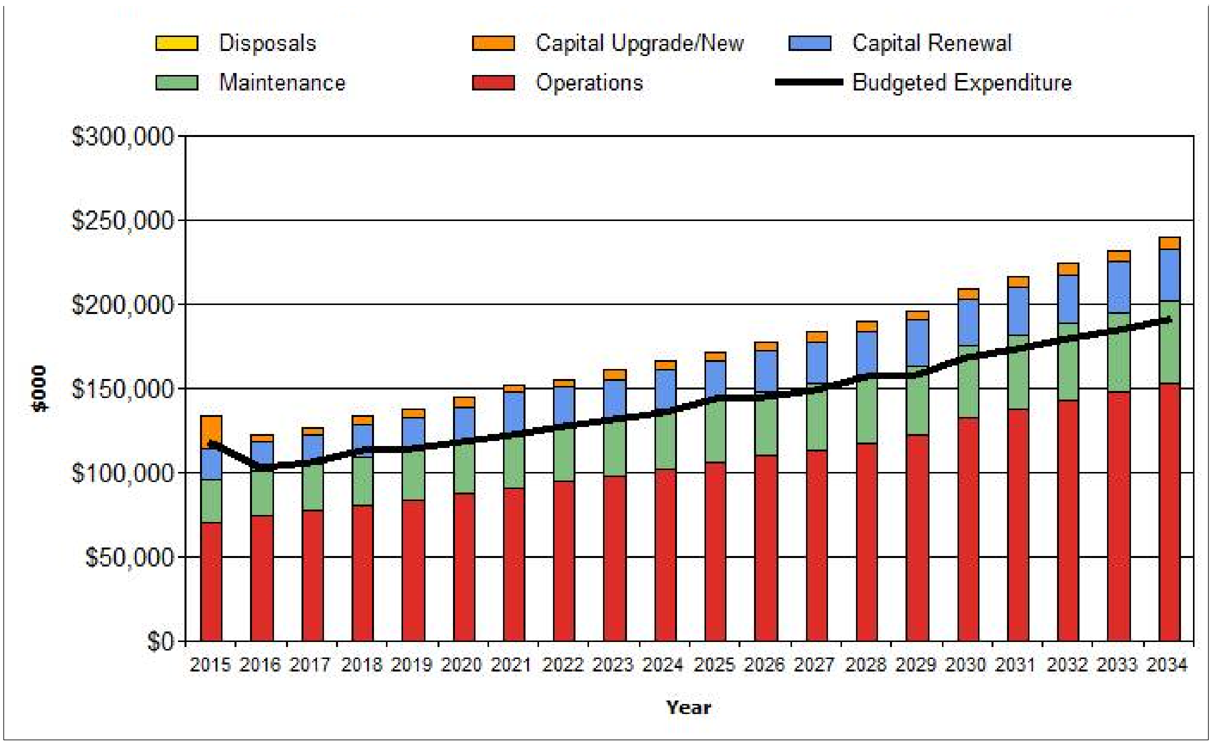


Figure 1-2 20-Year projected asset funding shortfalls ($238 million over 10 years = Option 3)

When built assets are left to deteriorate, particularly in major asset classes such as roads, investment to restore those assets can often be far more costly than regular asset maintenance and renewal programs. This also applies to the natural environment which, if allowed to deteriorate, cannot easily be brought back to a healthy state without significant additional investment. The Council is responsible for managing significant natural assets, including approximately 10,000 hectares of bushland and over 300kms of waterways. While these cannot be easily "valued" or depreciated in the same way as built assets, as detailed in *Part 4 Asset Management Strategy,* the Council also has insufficient resources to fully address the funding required to look after these natural assets.

In summary, while our financial position is sound, we do face significant challenges each year in managing costs that are rising faster than available revenue and in having the required level of funding to adequately maintain and renew our built and natural assets.

1.3 Ability to maintain financial sustainability

As is the case for many NSW councils, the Council's ability to maintain financial sustainability is constrained due to a number of factors beyond its control.

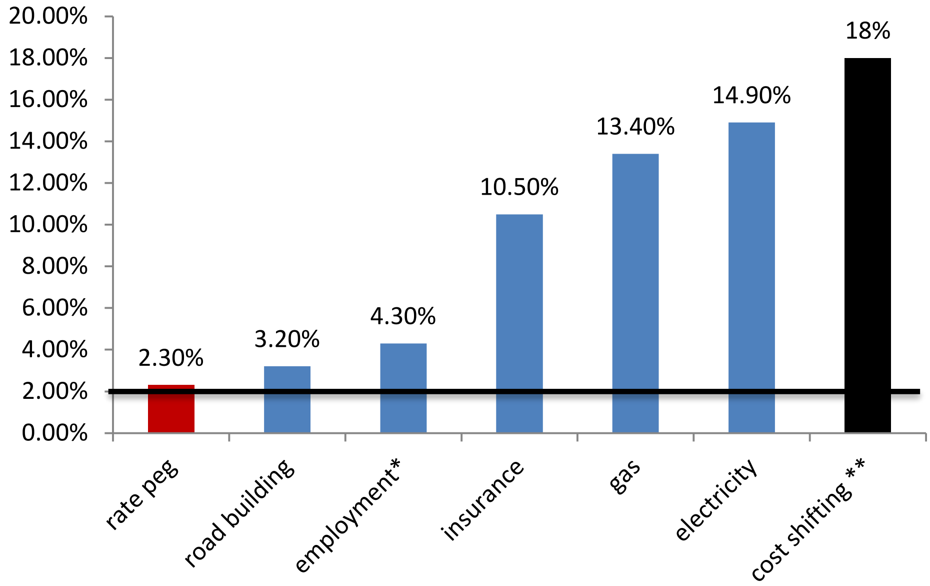
1.3.1 Rate peg

Annual rating revenue has been constrained for the past 37 years by the NSW Government's policy of 'rate pegging'. This 'rate peg' limits the amount by which councils can increase their rates.

1.3.2 Cost shifting

Another factor is the continual shifting of responsibilities from Australian and NSW Governments to Local Government, without corresponding funding (known as 'cost shifting'). In 2011-2012, cost shifting to the City of Blue Mountains was estimated to be in the order of $6.9 million in additional expenditure to Council. Over the 6 years from 2006-2007 to 2011-2012 the impact of cost shifting on the City of Blue Mountains is estimated at $33.3 million (an average of $5.5 million per year) of additional expenditure requirements. Figure 1-3 shows the impact of cost-shifting and other rising costs against the rate peg of 2014-2015.

Impact of costs against 2014-2015 rate peg



* Includes superannuation increases ** based on a 5 year average and includes our contribution to the NSW Government for emergency management services.

Figure 1-3 Costs rising faster than allowed 'rate peg' increase

1.3.3 Share of taxation revenue

It is important to note that the overwhelming share of taxation revenue (80.5%) in Australia is raised by the Australian Government and the majority of this is raised via taxes on income (57.3%). Local Government raises a very modest share (3.5%) of total taxation (i.e. rates) (Australian Centre of Excellence for Local Government: 2012). Furthermore, Local Government's share of total taxation has been declining steadily since the 1960's. At the same time it has been estimated that Local Government is responsible for provision of approximately 36% of local infrastructure.

1.3.4 Recent Australian Government Policy Impacts

Local Government has to continually adapt to changes in Australian and NSW fiscal policy. For example the 2014 Australian Government Budget proposes an indexation freeze for three years on the Local Government Financial Assistance Grant (FAG) and the cessation of the Australian Government 5% contribution to pensioner rate subsidy. The financial implication of the indexation freeze is in the order of a $2.9 million cumulative loss in revenue over the next four years for the City of Blue Mountains, plus a loss of $1 million per annum ongoing. The loss of the pensioner rebate subsidy will cost the Council $80,000 per annum of revenue on an ongoing basis.

1.3.5 Workforce productivity

Our workforce strategies aim to ensure a sustainable workforce for the future through effective management of workforce costs and productivity. The *Workforce Management Strategy* (Part 5) identifies a number of planned actions for improving workforce capability and productivity. The success of the plan is monitored by a number key performance indicators. Current analysis of indicators shows substantial improvements in productivity. Furthermore, Blue Mountains City Council is recognised as a top performer in relation to employee attendance of 96.7% when compared to the average of 94% for NSW Councils. (NSW Council LGSA Survey – Unplanned Absence Average).

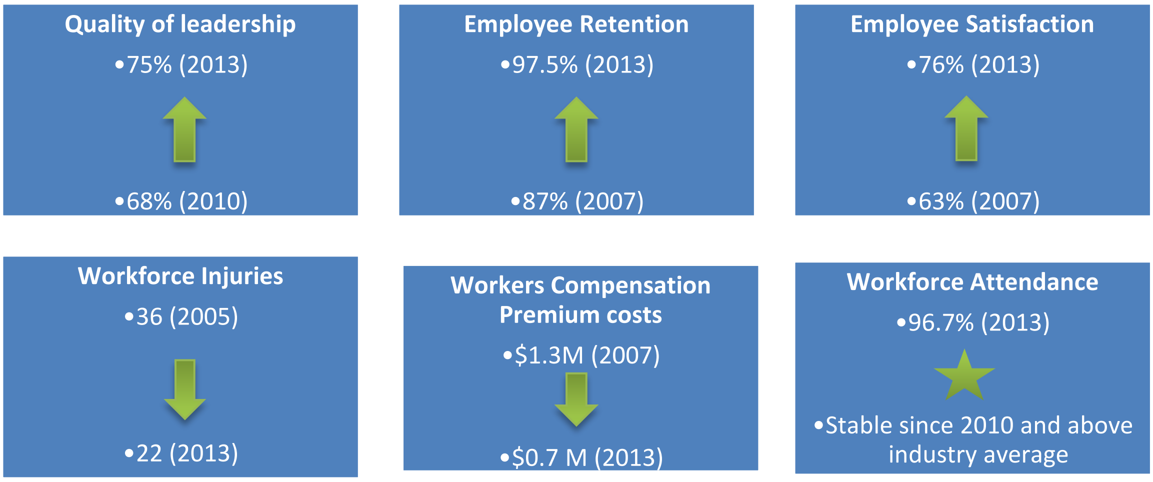


Figure 1-4 BMCC workforce productivity indicators

1.3.6 Cost containment and efficiencies

The Council has a rolling program of best value service reviews and enforces budget containment strategies each year to enable the cash budget to be balanced (i.e. expenditure to match available income). Cost containment includes intentional actions being implemented to reduce the cost of labour and materials and improve efficiency in service delivery.

Cost savings between 2010/11 and 2014/15 includes over $13 million in the following areas:

- Contract management and insurance -$3.0M
- Vehicle and purchases/ management - $2.0M
- Business and process improvements - $1.0M
- Labour and consultancy cost reductions - $3.8M
- Materials management practices - $0.6M
- Waste initiatives -$1.8M
- Other operating costs - $0.8M

Projected future savings. Actions already taken will continue to contribute $3 million of savings each year as they have an ongoing financial from action taken to reduce costs.

In addition, over the next five years, projected savings include:

- Savings in interest payments - $3.0M
- Contract savings for utilities, hardware

Revenue initiatives. Since 2009 the Council has raised $40 million in specific purpose grants, plus $47 million from Financial Assistance Grants and other contributions.

Initiatives implemented by the Council to increase revenue have included:

- Investment in a pool cover at Glenbrook Swim Centre which allows for year round swimming resulting in increased revenue - $60,000 per annum, ongoing
- Recovery of court costs for environmental health and regulatory actions - $130,000 (one-off)
- Credit card acceptance at parking metres - $125,000 per annum, ongoing
- Shared resourcing of customer service desk, income from Roads and Maritime Service (RMS) - $18,000 per annum, ongoing

1.3.7 Reduction of debt

The Council has committed to reducing its debt position by ceasing the practice of borrowing $2.3 million each year for non-major asset works, as well as directing any surplus cash funds to reducing borrowings wherever it is effective to do so. Any proposed new loan borrowings are subject to the Council's Borrowing Policy including rigorous business case assessment and ongoing monitoring of the financial capacity of the Council to withstand additional debt.

1.3.8 Advocating to other levels of government

We continue to advocate to the NSW and Australian Governments on a range of matters to achieve fairer allocation of resources, reduce cost shifting and improved service delivery for the community.

The principal current advocacy issues are the low share of revenue taxation which Local Government receives, the Waste Levy costs, rate-pegging, contributions above the rate peg required for State Emergency Management and the recent announcement by the Australian Government on freezing the Financial Assistance Grant index. Further details and discussion on these matters are presented in Part 3 – *Section 3.8.4 Revenue Forecasts.*

1.4 Independent reviews on Local Government sustainability

1.4.1 Local Government Review Panel Assessment

The Independent Local Government Review Panel (November 2012) concluded there was a need for councils to raise additional revenues from rates. The review stated:

The available evidence points to a very difficult fiscal outlook for NSW and Australia as a whole – constraints on revenues during a time of relatively slow economic growth, coupled with the need to fund infrastructure gaps and increasing demands for services... local government cannot expect increases in total state and federal funding and may well see a declining trend in specific purpose grants. Making the best use of existing external funding and of local government's own tax base – rates – will assume even greater importance.

1.4.2 Treasury Corporation Independent Assessment

A report into the financial sustainability of Blue Mountains City Council , prepared by the New South Wales Treasury Corporation (TCorp) in March 2013, notes that the Council's "expenses have been well managed" and the Council's "liquidity and financial flexibility is sound". However, this report also confirms that "the forecast capital expenditure is significantly below the levels required to maintain an acceptable asset base because of insufficient funds".

While this report assessed the Council's financial sustainability rating as 'weak' in the short term, and its three year outlook as 'neutral', the report also noted the following:

> "TCorp's Financial Assessment and Benchmarking Report was prepared based on an earlier *LTFP* [*Long Term Financial Plan*] which has now been superseded. The revised LTFP, recently adopted by [Blue Mountains City] Council, has been based on six key financial strategies that together address the key issues raised by TCorp. These strategies include renewing existing and seeking additional special variations for infrastructure and environment works, ceasing future loan borrowings subject to annual reviews of borrowing capacity, continuing to engage the community on achievement of affordable and acceptable levels of service, implementing service level reviews and adjustments to ensure value for money….Council's latest LTFP addresses …TCorp actions ….with the expectation being that Council will achieve a projected surplus operating result (excluding capital items) by 2023 of $500,000." (TCorp, 2013:5)

TCorp specifically highlighted the importance of the Council's financial strategies for increasing revenue and restricting loan funding. They made the following comments in their report:

> *When analysing the financial capacity of the Council we believe the Council will not be able to incorporate any further loan funding in addition to the already forecast loans.*
>
> *Council to consider seeking extensions of the SRV [special rate variation] and Environmental Levy, which are critical to the Council's debt repayment abilities.*

1.5 Our plans to address financial sustainability

1.5.1 Community Strategic Plan

The financial challenges and service needs of the community are addressed in accordance with the objectives of our Community Strategic Plan *Sustainable Blue Mountains 2025.* The main objectives applicable to the *Resourcing Strategy* goals are under Key Direction *6. Civic Leadership*:

- The Council lives responsibly within its means and strengthens its financial sustainability

- The Council provides transparent, fair and accountable civic leadership
- The community is informed, consulted and engaged
- The Council provides value for money services
- The Council, other levels of government and the community work together to implement *Sustainable Blue Mountains 2025*
- Sustainable services, assets and infrastructure are provided in the City of Blue Mountains.

1.5.2 Delivery Program objectives

In 2012, the Council resolved a commitment to financial sustainability. The Council's *Delivery Program 2013-2017* emphasises the Council's commitment to:

- A financially sustainable Council living within its means
- Responsibly managing its assets within available resources using a risk approach
- Reviewing and providing affordable and value for money services.
- Strengthening our governance and risk management

The Council subsequently endorsed *Six Strategies for Financial Sustainability.*

1.5.3 Six strategies for financial sustainability

To improve the financial position of the City, the Council has taken leadership in developing Six *Strategies for Financial Sustainability*. These strategies are detailed in Part 3, Section 3.5.2.

Six Strategies for Financial Sustainability

Figure 1-5 BMCC six strategies for financial sustainability

1.6 Building a better future

The LTFP proposes three financial options to improve the financial position of the Council, and address the significant infrastructure funding shortfall, and to maintain, or improve service delivery. Options 1 and 2 each contain revenue assumptions that involve proposed rate increase options including continuation of an existing Environment Levy. A third financial scenario contains the option for no special variation to rates. This scenario entails a reduction to service levels in order to reach financial sustainability targets.

1.6.1 Why is there a need to increase rates or reduce service levels?

The purpose of the proposed options for rate increases or service level reduction is so the Council can be in a financial position to sustainably manage community priorities, the infrastructure funding shortfall and improve the financial position of the Council.

The *Asset Management Strategy* indicates that $210 million or 21% of the total built asset value is currently in poor condition. This is expected to grow to around 37% in 10 years' time.

Condition of Built Assets

NOW	In 10 years' time

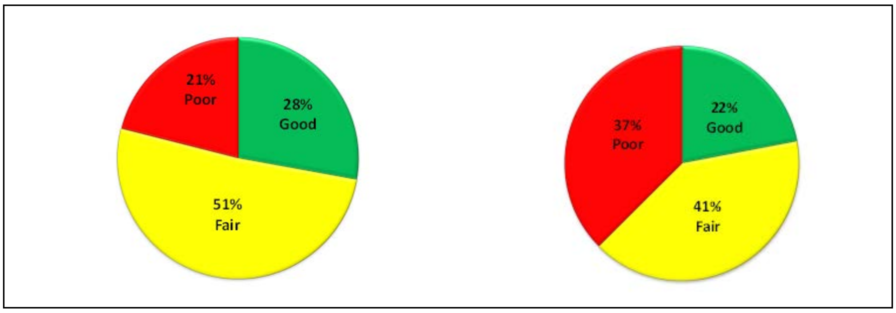


Figure 1-6 Condition of built asset portfolio current (2014) and 10-year forecast (2024) - Option 3

1.6.2 Benefits of proposed rate increase

The benefits of the options to increase rates include enabling the Council:

- to be in a financial position to renew and maintain built assets as required
- to better mitigate and address priority risks
- to better prepare and respond to natural disaster emergencies, including bushfires
- to better respond to the assessed needs of the community
- to retain capacity to look after the natural environment

Additional investment in our built infrastructure and natural environment not only benefits the local community, but also the tourism and retail sectors with flow-on multiplier effects for our towns and villages and local economy, including job creation.

The special rate increase proposals include the renewal of an existing Environment Levy.

Expiring Environment Levy contribution

A current special variation to rates, known as the Environment Levy, is due to expire on 30 June 2015. This levy has been in place since 2005 and supports environmental management of land under the responsibility of the Council. The levy costs ratepayers less than $1 a week.

If the Environment Levy is not continued the impact of the funding loss, commencing 1 July 2015, will mean:

- Loss of co-funded revenue from other levels of governments and environment agencies (currently over $3.6 million since 2005)
- Reduced support for the work of more than 500 community conservation volunteers, working in Bushcare and Landcare
- No water quality testing across 40 local waterways (including recreational sites)
- Cuts to Council's visitor facilities improvement program, including walking track and lookout closures
- Visitor facility asset failure and closures, adversely affecting local tourism economy
- Cuts to rehabilitation work across 130 priority bushland and creek sites

1.6.3 Three rating options

The three Financial Scenarios of the LTFP include three rating options shown in *Table 1.1* and summarised below.

Option 1: Service Levels Improved

This option reinstates the existing Environment Levy in 2015/16 on a permanent basis (a 6.6% increase including 3.6% for the Environment Levy and an estimated 3% rate peg increase), followed by three increases of 9.6% (including the Environment Levy and a 3% rate peg increase) from 2016/17 to 2018/19. These increases would remain permanently in the rate base and would raise an additional $28.2 million over this four year period.

Under Option 1 service levels will be improved, with additional funding raised being targeted to reducing the proportion of built assets (roads, footpaths, drainage, town centres, and public toilets) in poor condition from 21% to 17% by 2024. Under this option our emergency preparedness and response is also improved, the current capacity of the Council to protect and restore the natural environment is retained and community services and facilities (playing fields, leisure centres, libraries, community development service etc.) are improved.

Over 2015/16 to 2018/19, the cumulative increase to rates under this option is 40.4%. However, this includes the existing Environment Levy (which ratepayers are already paying) as well as allowed annual rate peg increases estimated at 3% per year. If these are excluded, then the actual increase above current rates is 23% over the four years.

Option 2: Service Levels Maintained

This option reinstates the existing Environment Levy in 2015/16 on a permanent basis (a 6.6% increase including 3.6% for the Environment Levy and a 3% rate peg increase), followed by three increases of 7.4% (including the environment levy and a 3% rate peg) from 2016/17 to 2018/19. These increases would remain permanently in the rate base and would raise an additional $20.9 million over this four year period.

Under this option, additional funding raised would be targeted to ensuring existing service levels are maintained, with the proportion of built assets in poor condition remaining at 21% by 2024. Our emergency preparedness and response is maintained, community services and facilities are maintained at current levels, and the current capacity of the Council to protect and restore the natural environment is retained.

Over 2015/16 to 2018/19, the cumulative increase to rates under this option is 32.1%. However, this includes the existing Environment Levy (which ratepayers are already paying) as well as allowed annual rate peg increases estimated at 3% per year. If these are excluded, then the actual increase above current rates is 15% over the four years.

Option 3: Service Levels Reduced

This option discontinues the existing Environment Levy when it expires in June 2015 resulting in a reduction in rating revenue of $6.9 million over four years. Rates will increase by rate peg only (estimated at 3% per annum). There will be a significant reduction in service levels, with deterioration in our built assets from the current 21% in poor condition to 37% in poor condition by 2024. Our capacity to prepare for, and respond to, emergencies will be reduced and our community services and facilities will be reduced. Our capacity to protect and restore the natural environment will also be significantly reduced.

Table 1-1 Proposed annual rate increases for the three options

ANNUAL RATE INCREASE (%)		2015/16	2016/17	2017/18	2018/19
Option 1 **SERVICE LEVELS IMPROVED**	Rate Peg	3%	3%	3%	3%
	Environment Levy (reinstated)	3.6%	-	-	-
	Additional Rate Increase (including the Environment Levy)	-	6.6%	6.6%	6.6%
	Total Annual Increase	**6.6%***	**9.6%**	**9.6%**	**9.6%**
Option 2 **SERVICE LEVELS MAINTAINED**	Rate Peg	3%	3%	3%	3%
	Environment Levy (reinstated)	3.6%	-	-	-
	Additional Rate Increase (including the Environment Levy)		4.4%	4.4%	4.4%
	Total Annual Increase	**6.6%***	**7.4%**	**7.4%**	**7.4%**
Option 3 **SERVICE LEVELS REDUCED**	Rate Peg	3.0%	3.0%	3.0%	3.0%
	Environment Levy (discontinued)	-	-	-	-
	Additional Rate Increase	-	-	-	-
	Total Annual Increase	**3.0%***	**3.0%**	**3.0%**	**3.0%**

* Ratepayers would experience lesser increases in 2015/16 than shown in this table, due to the effect of the Environment Levy already being a part of 2014/15 rates. Under Options 1 and 2 the Environment Levy is reinstated, resulting in an actual increase of 3.0% for 2015/16 above current rates, while under Option 3 the Environment Levy is not renewed, resulting in a slight reduction in rates of approximately 0.5% for 2015/16.

1.6.4 Where the special rate increase income will be spent

The expenditure of available funding and new revenue from any special rate variations is proposed to be directed by this *Resourcing Strategy 2014-2024*. Expenditure would be targeted to:

- reducing the proportion of built assets in poor condition
- managing risk
- funding critical asset renewal and maintenance priorities that address assessed community needs

Results of Council's service and asset planning work and assessment of the community survey have indicated four key areas where service levels need to be improved and / or maintained:

1. Built Infrastructure
2. Emergency Preparedness and Response
3. Environment
4. Community and recreation services and facilities

The priorities for asset funding will focus on renewal of critical assets where high risk or community need have been identified.

Figure 1-7 summarises the proposed expenditure priorities and estimated allocation of funding towards these priorities under the proposed rate increase Options 1 and 2.

1.7 Community consultation on options

A program of community engagement occurred between 4 August to 15 September 2014 on the three rating options including within LTFP Financial Scenarios outlined in Part 3.

A variety of methods was used to engage ratepayers during this time as outlined in the adopted *Resourcing Our Future: Community Engagement Strategy.* (*http://bluemountainshaveyoursay.com.au/ResourcingOurFuture*)

To support the engagement process, a comprehensive package of information was provided on the website, with hard copies of key documents available for viewing at libraries and the Council's Katoomba office.

The Council considered submissions from the public before resolving on 9 December 2014 to make an application in February 2015 to the Independent Pricing and Regulatory Tribunal (IPART) for a special rate variation to take effect 1 July 2015.

Special Rate Increase Expenditure Areas

Amount spent to 'improve' (Option 1) or 'maintain' (Option 2) service levels over ten years.

Built Infrastructure	Emergency Preparedness & Response	Environment (includes Environment Levy funding)	Community and Recreation
Option 1 – IMPROVE Service Levels			
$47.3 million	$4.5 million	$22.5 million	$24.2 million
Or Option 2 – MAINTAIN Service Levels			
$33 million	$2 million	$19.3 million	$16 million
Roads & Bridges Footpaths Bus stops/shelters, Stormwater drainage Town centres-public domain Operational buildings Technology upgrades	Disaster and emergency management planning Bushfire impact preparedness and prevention Asset protection works	Weed control Restoration of waterways, Pollution management Bushcare and Landcare programs Environmental education Habitat restoration Walking tracks and lookouts	Sports facilities Park revitalisation Community buildings Community development programs

Expenditure prioritised according to critical asset priorities that support services that the community places a high value on and/or those that have a high risk profile

Figure 1-7 Proposed expenditure and allocation of funding under Options 1 and 2, for the term 2015 to 2024

Further details of proposed funding areas can be found in Parts 3 and 4 of this document.

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2: City Context

2.1 Introduction

The aim of City Context is to discuss and illustrate:

- Geographic aspects and socio-economic facts about the City (***Section 2.2*** *City profile).*
- The effect of settlement and growth trends on service provision *(**Section 2.3** Settlement and growth).*
- The broad financial challenges affecting Local Government finances and unique financial burdens faced by Blue Mountains City Council *(**Section 2.4** Financial context).*
- Service delivery gaps and Council's approach to providing best value services within its revenue constraints *(**Section 2.5** Council performance).*
- A comparison of our rates and socio-economic factors to other councils (**Section 2.6** *Comparative study/rating levels*).
- An assessment, based on current rating levels, of the general capacity of residents to pay higher rates *(**Section 2.7** Capacity to pay: preliminary assessment).*

2.2 City Profile

2.2.1 Regional context

The Blue Mountains local government area is located on the western fringe of metropolitan Sydney. It is classified by the State as part of the Sydney Metropolitan area, yet its urban fabric is uncharacteristic of metropolitan Sydney. This is due to its peri urban location and unique geography, geomorphology and natural heritage environment, which has contained urban density and growth along main ridges following historic rail and highway corridors. The City's population of around 75,000 is dispersed across a linear settlement pattern of 27 settlements extending 100km across predominantly mountainous ridgeline terrain within a World Heritage listed environment.

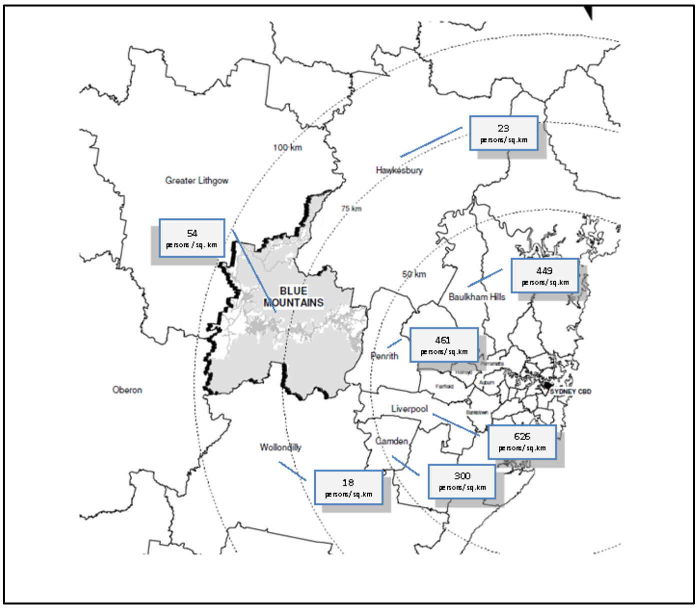


Figure 2-1 - Blue Mountains Local Government area

2.2.2 A City in a World Heritage Area

World Heritage Environment – an important management role for the Council and community

The Greater Blue Mountains Area is a nationally and internationally significant environmental area included in UNESCO's World Heritage List. Many residents and businesses benefit from the amenity, lifestyle, recreation and jobs that the unique aspects of this natural area bring to them.

The area is one of 16 National Landscapes identified and promoted by the Australian Government as "must see" nature tourism destinations. The area one of the most extensive, diverse and significant heritage listed walking track networks in Australia. Over 2.7 million visitors come to the Blue Mountains to experience nature-based recreation every year (NSW Tourism, 2001). Investment in the quality and extent of these assets supports a healthy and sustainable relationship between the natural environment and all those individuals, communities and organisations who occupy or visit the City.

The Council works to protect this valuable World Heritage listed asset by regulating the impact of urban development on natural areas and delivering environmental management programs such as bushland restoration, preservation of cultural heritage, stormwater management, and water quality monitoring.

2.2.3 Population

In 2011, the City had a population of approximately 75,942 people:

- Average age: 42
- Median weekly household income: $1,270
- Median monthly mortgage repayments: $1,842
- Median weekly rent: $280
- Average household size: 2.5 persons
- Average number of persons per bedroom: 1.1
- Average motor vehicles per dwelling: 1.7

Demographic trends over the period 2001 – 2011 indicate that the population of those aged 49 and under is reducing, while there is a large increase in the population of those aged 50 and over.

2.2.4 Index of Disadvantage

The Index of Relative Socio-economic Disadvantage (IRSD) is one of four Socio-economic Indexes for Areas (SEIFA) prepared by the ABS. The IRSD summarises a range of information about the economic and social factors of people and households within an area to derive a score. A high score indicates a relative lack of disadvantage in general.

The IRSD index ranks the Blue Mountains at 128 out of 153 Local Government Areas, making it one of the least disadvantaged areas in NSW.

For example, an area may have a high score if there are (among other things): few households with low incomes; few people with no qualifications; and few people in low skilled occupations. http://www.abs.gov.au/websitedbs/censushome.nsf/home/seifa

2.2.5 Workforce and economy

From the 2011 Census:

- The Blue Mountains LGA's Gross Regional Product is estimated at $1.95 billion, which presents 0.4% of NSW's Gross State Product
- The 2012 Business Register indicates 5,555 local businesses operating in the LGA, though only 1,309 are rateable business properties, the remainder representing home-based and contractor businesses
- over 50% of the Blue Mountains LGA's working residents travel outside of the area to work
- over 40% of the Blue Mountains LGA's local labour force have a tertiary qualification
- Most popular occupations were Professionals (28.8%) followed by Clerical and Administrative Workers (14.3%), and Technicians and Trade Workers (13.2%)
- Most popular employment sectors were Health Care and Social Assistance (14.7%), Education and Training (14.7%) and Retail Trade (9.2%)

The Blue Mountains is renowned for its iconic landscape, nature-based tourism and recreation, culture and arts, which bring significant flow-on effects to retail, food and accommodation industries.

2.2.6 Comparisons to Greater Sydney and Rest of NSW

The socio-economic characteristics of residents in the Blue Mountains vary greatly reflecting the spread of settlement from the Lower Mountains on the fringe of metropolitan Sydney, to the Upper Mountains, where lower-density settlements adjoin the rural NSW local government areas of Oberon and Lithgow. For this reason, Blue Mountains LGA Census data used in this report is often compared with both 'Greater Sydney' and 'Rest of NSW' statistical areas (*Figure 2-2*).

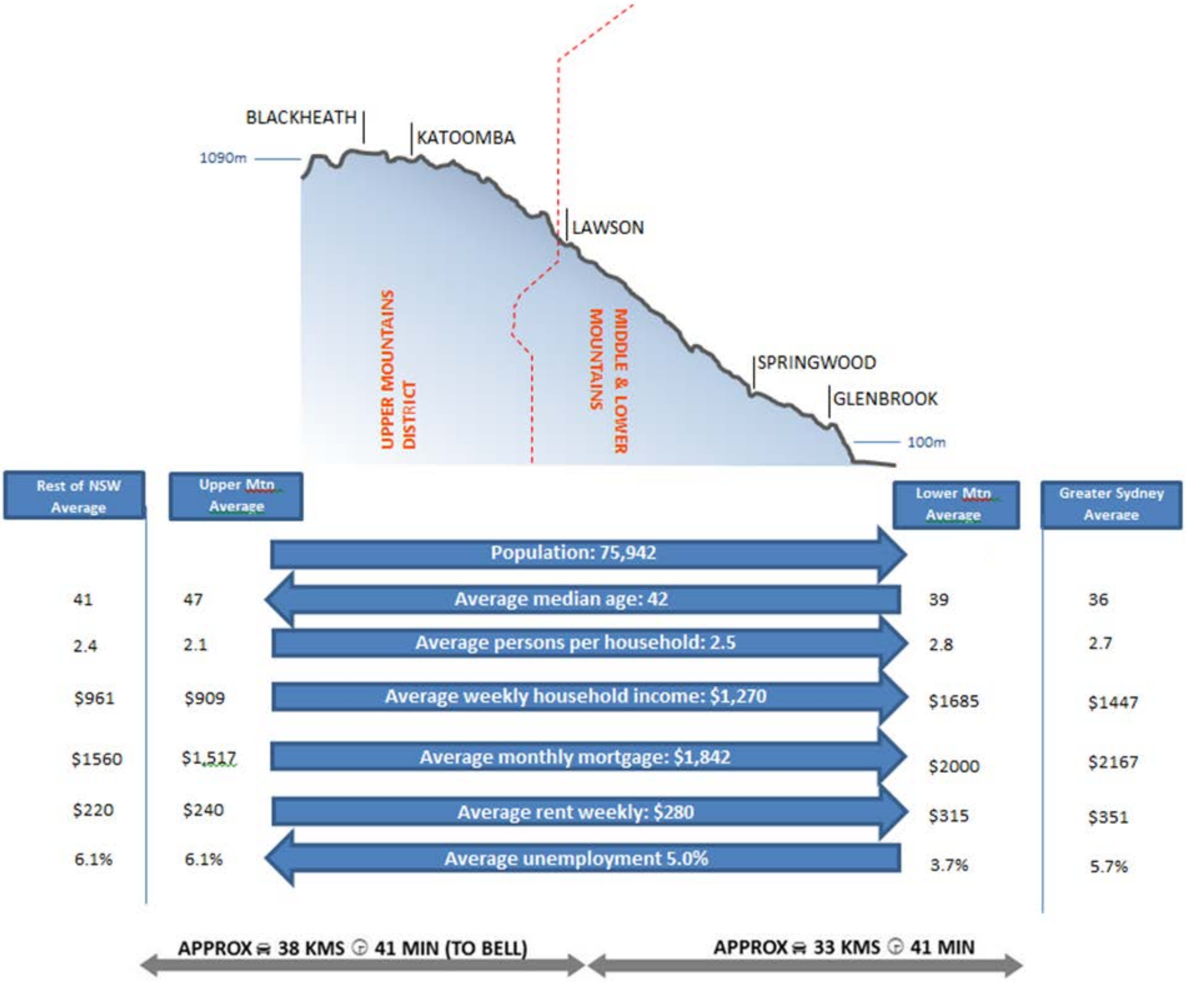


Figure 2-2 Socio-economic comparisons of Blue Mountains to Greater Sydney and Rest of NSW 2011 (Source: Census 2011)

The Census shows that in 2011 across the Blue Mountains LGA:

- The population is ageing and has a higher median age (42) than 'Greater Sydney' (36) but is on par with 'Rest of NSW (41)
- Weekly household incomes ($1264) are higher than 'Rest of NSW' ($961) but lower than 'Greater Sydney' ($1447)
- Average mortgages ($1842) are higher than 'Rest of NSW' ($1560) but lower than 'Greater Sydney" ($2167)
- Average rents ($280) are higher than Rest of NSW' ($220) but much lower than 'Greater Sydney' ($351)
- Unemployment rates (5.0%) are lower than both 'Rest of NSW' (6.1%) and 'Greater Sydney' (5.7%)
- The proportion of households on very low incomes (22.7%) is slightly higher than 'Greater Sydney' (20.3%), but much lower than 'Rest of NSW' (30.5%)

2.3 Settlement and growth

Twenty-seven towns and villages exist along 100km of mountainous ridgelines and valleys. Development is constrained by the interface with bushland and rural areas that features rugged geological landforms, important vegetation, water catchments, cultural sites, and endangered flora and fauna. Settlement and commercial characteristics across the City's 27 settlements more closely resemble the urban form, density and lifestyle of urban centres in rural LGAs than suburban areas of Sydney.

The Great Western Highway and Blue Mountains railway line traverse the City and form part of a nationally significant transport corridor – transporting goods, services and commuters between Sydney and the Central West *(Figure 2-3).*

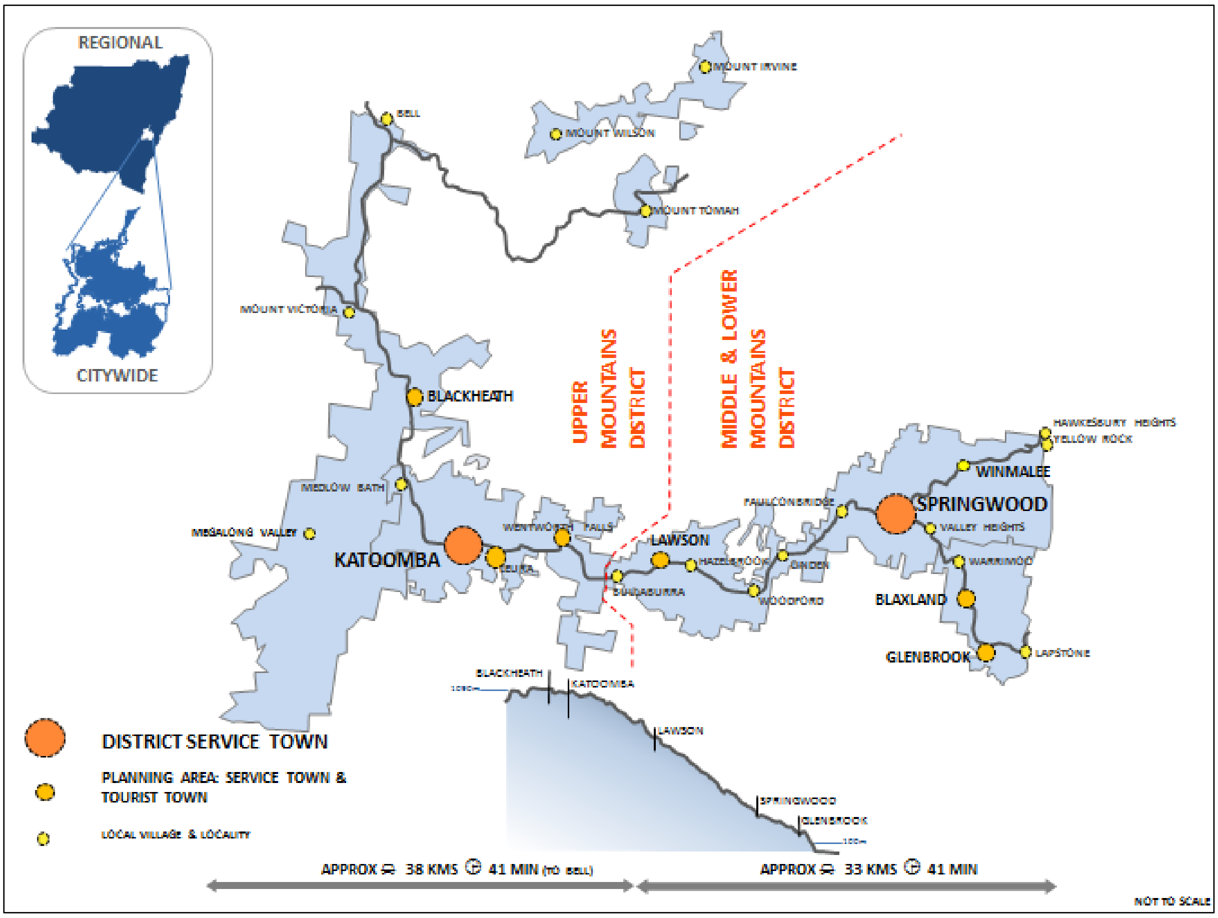


Figure 2-3 Settlement of towns and villages in the Blue Mountains

The City's location within a World Heritage Area places limits on the land available for living. It also places responsibilities on the community, the Council, and other agencies to manage effectively the impacts of urban development and to protect the internationally recognised values of the natural environment as well as Sydney's drinking water catchment.

2.3.1 Urban density

The Census Statistical Area of *Springwood/Lapstone* in the lower Blue Mountains, represents 53% of the City's population (75,942) compared to 22% in the mid-mountains Statistical Area of *Wentworth*

Falls, Lawson, Hazelbrook, and Linden; and 24% in the Upper Mountains area of *Leura, Katoomba, Blackheath, and Megalong Valley*.

Population density is 54.96 persons per square kilometre; however, this very low density includes the large part of the LGA that is within National Parks. As only 11% of the LGA is available for settlement the density of this part of the LGA is much higher and comparable to Metropolitan fringe councils. *Figure 2-4* shows the urban settlement pattern across the mountain. The darker red areas shown in the figure illustrate the settlements with higher population density. Towns in the Lower Mountains feature higher urban densities.

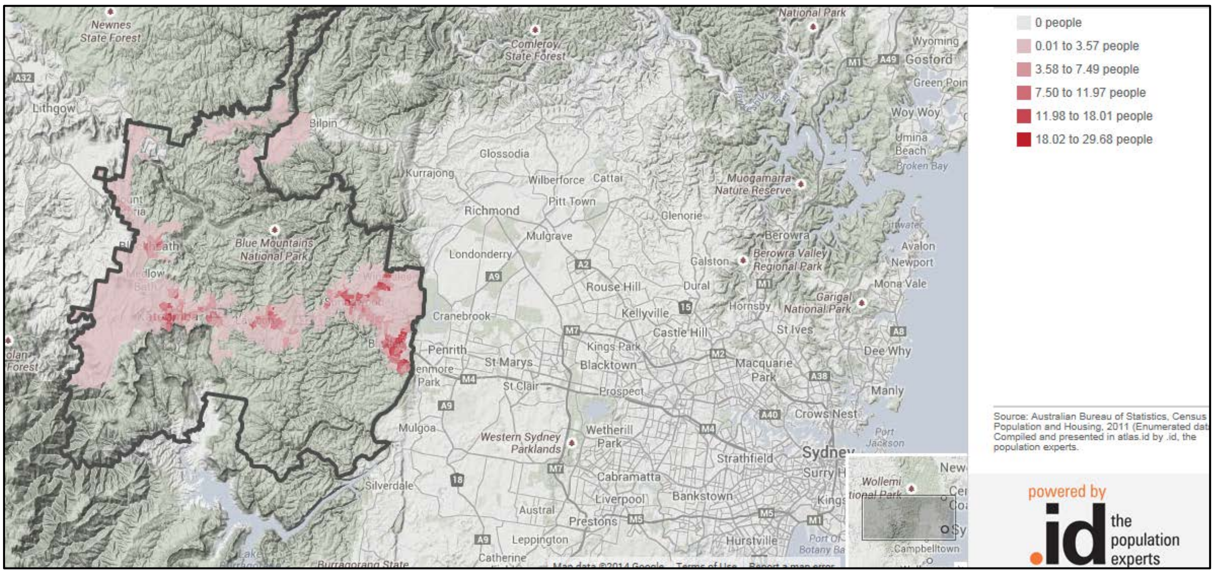


Figure 2-4- Urban settlement/density Blue Mountains Local Government Area

Housing stock across the City is predominantly detached dwellings. Potential expansion of the urban footprint is extremely limited as there is limited supply of land suitable for residential development. Recent zoning (2005) for medium density development has shown very limited take-up from the housing market. The 2010 residential land study estimated that there was around 13 years' supply of land available for detached housing. The potential for higher density housing remains in Springwood, Blaxland and Katoomba.

2.3.2 Growth potential

The Blue Mountains LGA had the lowest rate of population growth of all council areas in Greater Sydney**.** Population forecasts issued by NSW Planning and Environment in June 2014 project the population to increase by 23.9% to 97,300 by the year 2023. This represents an annual growth of 1.2% or 940 persons. In contrast, Census time series data shows the actual population of the Blue Mountains grew over the 10-year period from 2001 to 2011 by 1.5% (averaging 0.15% annually) compared with 'Greater Sydney', which grew by 9.7% over the same period. The slow growth trend correlates with the decline in the number and value of building approvals over the past five years (*Figure2-5* and *Figure 2-6).*

The Council believes that past growth trends will continue for the foreseeable future and the forecast population estimates provided by NSW Planning and Environment include unrealistic growth assumptions.

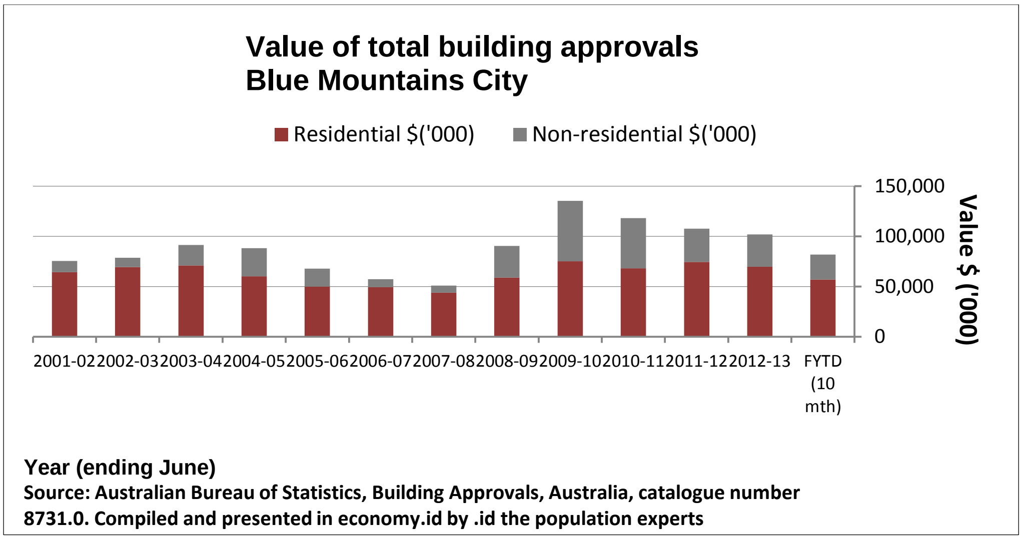


Figure 2-5 Blue Mountains residential building approvals 2002 - 2013

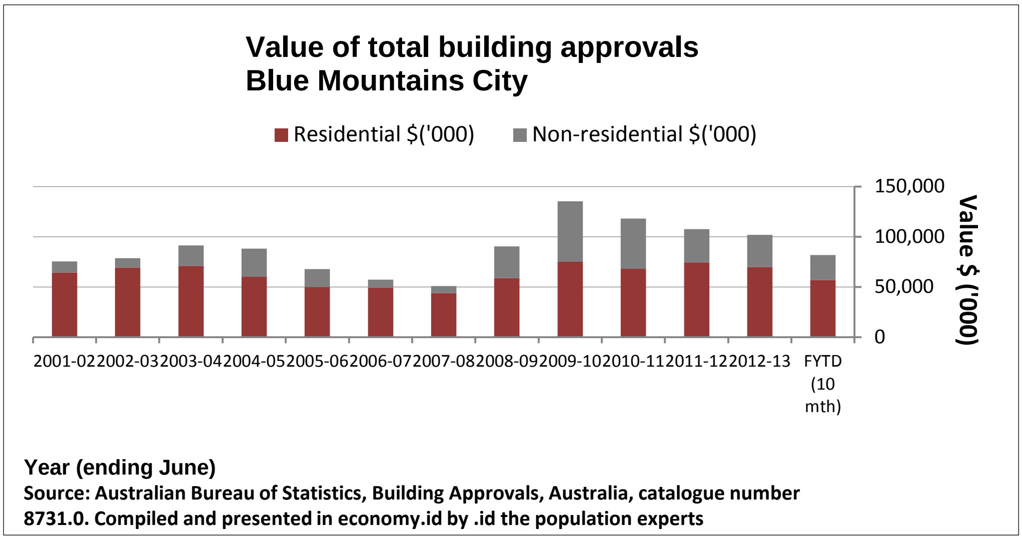


Figure 2-6 Blue Mountains City value of total building approvals 2001- 2013

2.3.3 NSW Government's *Plan for Growing Sydney*

The NSW Government's *Plan for Growing Sydney,* released in December 2014, places the Blue Mountains LGA outside of the Metropolitan Urban Area. It recognises that expansion of the current urban footprint in the Blue Mountains will always be constrained due to the impact of human settlement on the World Heritage Area, cultural landscape and heritage, protection of Sydney's drinking water, and management of bush fire risk. It also reflects strong community feedback that it did not support the previous plan's identification of the lower Blue Mountains as an area supporting planned growth in Penrith and Parramatta.

The Blue Mountains LGA is part of the West sub-region. The priorities for this region include supporting and developing the visitor economy to maintain the role of the Greater Blue Mountains World Heritage Area as a nationally significant tourism destination. The development of Badgery's Creek Airport and planned growth in and around Penrith may result in residential growth pressures in the Lower Mountains in the long-term. There may be an economic boost from higher rates of international, domestic and day-trip tourism to the Blue Mountains due to this planned growth and improved transport infrastructure. The concern will be the Council's financial ability to provide higher levels of service for maintenance, renewal and upgrade of tourism infrastructure in line with increasing tourism activity.

2.3.4 Settlement trends

The highest dwelling growth is currently in the Blackheath-Megalong Valley area, which is characterised by lower incomes and a high land ownership rate. This trend shows that new retirees, lifestyle dwellers and tourism operators are settling in the Upper Mountains and it is likely to continue due to tourism and country retreat lifestyle opportunities.

Young families are prevalent in the Lower Mountains.

Across the entire City, there is an outward migration of young people to Sydney because of access to education, jobs, and entertainment pursuits in Sydney.

2.3.5 Public realm asset provision

The spread of 27 settlements along the transport corridor requires a substantial investment by Council in the upkeep and renewal of town centre assets and community and recreation facilities. The distance over which residents are spread requires a higher proportion of facilities per person than elsewhere in Sydney and NSW.

Public realm improvements that address the vitality and viability of businesses in major town centres are essential to sustaining the local economy and the domestic and international tourism sector. Katoomba (including Echo Point), Leura and Blackheath are the main historic/tourist retail centres. Recent investment in vitality strategies in Katoomba, for example, have included a highly successful multi-million dollar, World Heritage Cultural Centre of international tourism standard, and progressive public domain improvements to the main street. These initiatives received funding contributions from State and Federal governments, the Coles Retail Group and Blue Mountains City Council.

The preservation of cultural heritage, retail and leisure experiences in town centres, and key visitor attractions is vital to retaining the economic benefits of the Blue Mountains tourism and heritage brand identity. All town centres require further renewal and upgrade works to support this role however, many renewal and upgrade works remain unfunded due to the financial constraints of the Council.

Major investment in new public realm infrastructure is reliant on State and Federal funding grants. Grant funding has funded initiatives that have contributed to the competiveness and vibrancy of the Blue Mountains and our quality of life, however, the costs associated with ongoing maintenance, renewal and upgrade of these grant funded initiatives remains the responsibility of the Council.

The Council's portfolio of public realm built assets (excluding waste management facilities) includes:

Aquatic & Leisure Centres

- 5 leisure and aquatic centres

Burials & Ashes Placement Service

- 9 cemeteries

Community Development

- 15 public halls and meeting places
- 12 childcare centres and 3 preschools
- 20 community centres

Cultural Development

- 4 buildings used purely for cultural development
- 20 sculptures; 25 cenotaph/war memorials; 16 obelisks

Economic Development & Tourism

- 2 visitor information centres; Echo Point Concourse and associated buildings

Emergency Management

- 26 emergency management buildings
- 300 asset protection zones and 63km of fire trails

Libraries & Information

- 6 libraries

Natural Area Visitor Facilities

- 120km walking tracks
- 85 lookouts
- 5 campgrounds
- Numerous shelters, pit toilets, toilets and other buildings

Sport & Recreation Facilities

- 72 sporting amenities, club houses and public toilet buildings
- 75 shelters and sheds
- 105 parks
- 22 sports grounds
- 6 skate parks
- 66 sports courts with 54 play equipment settings

Town Centres

- 7 town centre public toilets plus street furniture and gardens.

Water Resource Management

- 153km pipes, 7,935 pits, 53km open channels, 2,686 headwalls
- 204 Stormwater Quality Improvement Devices (SQIDS)

Transport & Public Access

- 665 km sealed road pavement, 523km kerb and gutter
- 81 km unsealed road pavement
- 175km footpaths
- 73,000m² sealed carparks
- 151 bus shelters
- 18,097m guardrails, 13,680 signs
- 31 bridges and other traffic assets - roundabouts, pedestrian refuges, wombat crossings

Council operating buildings

In addition to the built assets, there is approximately 10,000 hectares of **natural area assets.**

Historically, there has been extensive duplication of community services and facilities across the LGA and, increasingly, the cost of maintaining these services and facilities to meet current standards of provision, is beyond the community and the Council's resources. To achieve a more sustainable suite of public facilities and services the Council's focus for renewal and replacement of key community, and cultural assets will be based upon provision within main population catchments. These catchments are predominantly the Upper and Lower Mountains (within the two district towns of Katoomba and Springwood), and within the larger villages of Blackheath, Lawson and Blaxland/ Glenbrook.

2.3.6 Transport infrastructure burden

The financial demands on transport infrastructure and services in the Blue Mountains have been adversely affected by infrastructure expansion into new settlements over time, the ageing road network, and the difficult topography for road and footpath construction. Car travel is the preferred method for travel to work and has significantly increased over the past decade *(Figure 2-7)* placing increasing burdens on road maintenance and renewal, and traffic management solutions.

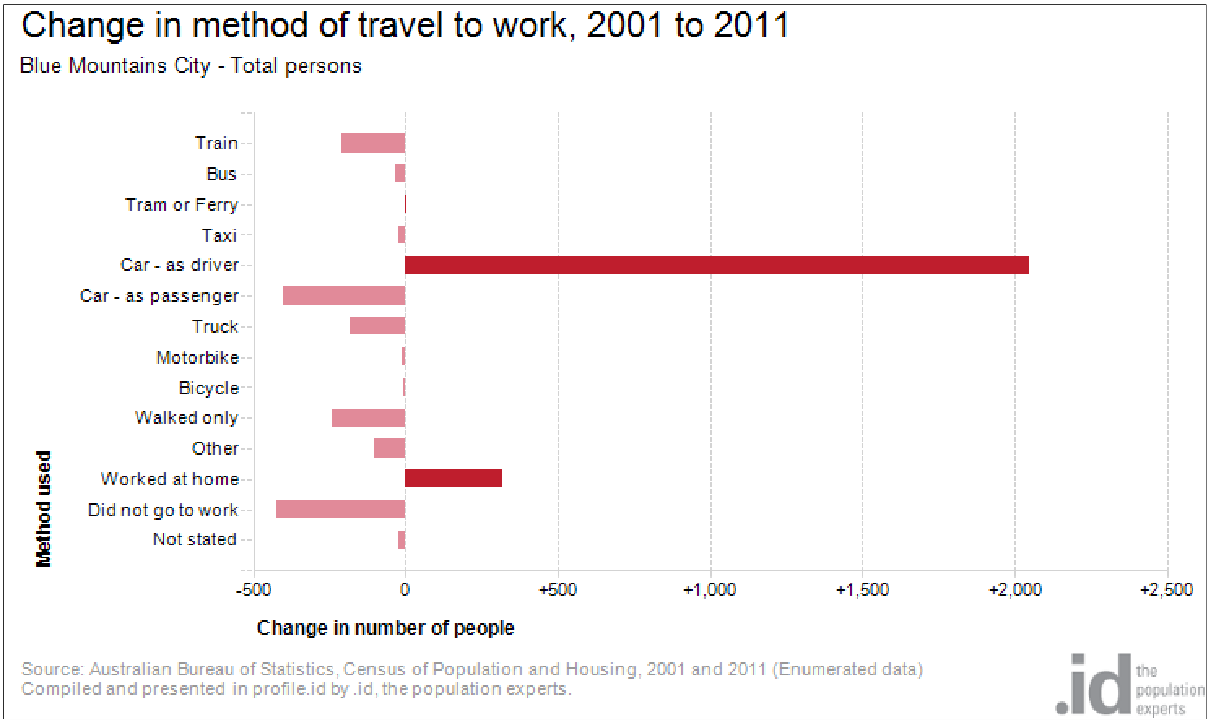


Figure 2-7 Change in method of travel to work, 2001-2011

2.3.7 Natural disaster risk

Surrounded by World Heritage bushland, the Blue Mountains City is exposed to some of the highest levels of bushfire risk in Australia. The consequence of living within significant bushland requires concerted effort and funding in disaster management. The Blue Mountains has, on average, 28 bush fires per year. All settlements throughout the Blue Mountains are prone to bushfire risk. Since 2009, the LGA has had four Natural Disaster Declarations from two bushfires and two storm events. The 2014 Blue Mountains Bush Fire Risk Mitigation Plan shows places throughout the City, as having extreme risk and exposure to catastrophic disaster. Economic risks include losses to agriculture, major commercial and industrial development, infrastructure, tourist facilities, mines, commercial forests, and drinking water catchments.

The National Parks and Wildlife Service are responsible for 74% of the Bush Fire Management Committee area, and the Council is responsible for 15.4%, with the remainder being the responsibility of other government areas and private owners.

In October 2013, a major bushfire event resulted in the loss of almost 200 homes, with another 100 severely damaged. The recovery from major events like these is beyond the resourcing capability of the Council. Furthermore, the frequencies of extreme weather events due to climate change are likely to increase with more potentially devastating outcomes.

2.4 Financial context

2.4.1 Local Government's share of taxation revenue

The overwhelming share of total taxation revenue (80.5%) is raised by the Commonwealth and the majority of this is raised via taxes on income (57.3%). It is important to understand that the financial difficulties faced by local governments is, in part, due to the fact that local government receives a very little Commonwealth taxation revenue relative to the high proportion of built assets that local government manages *(Table 2-1).*

Local government raises a very modest share of total taxation (3.5%) and this share has been declining steadily since the 1960's. (Australian Centre of Excellence for Local Government: 2012).

Table 2-1 Taxation revenue % share by sphere of government and source of revenue 2010-2011

	Australian Government %	NSW Government %	Local %	Total %
Taxes on income	57.3	-	-	57.3
Employer's payroll taxes	0.1	5.1	-	5.0
Taxes on property	-	5.8	3.5	9.3
Taxes on provision of goods and services	22.9	2.9	-	25.7
Taxes on use of goods & performance activities	0.2	2.5	-	2.7
TOTAL %	**80.5**	**16.2**	**3.5**	**100**

(Source: Australian Centre of Excellence for Local Government: 2012.)

2.4.2 Treasury Corporation Independent Assessment

A report into the financial sustainability of local government, prepared by the New South Wales Treasury Corporation (TCorp) in April 2013 confirmed the financial challenges faced by the Council.

In its report across all NSW Councils, it rates all councils according to seven levels of Financial Sustainability Rating (FSR), namely: Very Strong, Strong, Sound, Moderate, Weak, Very Weak, and Distressed. It also provided an outlook projection. A Positive Outlook indicates that a Council's FSR is likely to improve in the short term, whilst a Neutral Outlook indicates that the FSR is likely to remain unchanged. A Negative Outlook indicates that a Council's FSR is more likely to deteriorate, and is a sign of general weakening in performance and sustainability.

TCorp's assessment found the Council's FSR to be weak in the short-term and its three-year outlook to be neutral, that is, the FSR is likely to remain unchanged. It is important to note that this sustainability position is expected to deteriorate over the short term for nearly 50% of all NSW Councils, based on current LTFP projections.

While this report assessed the Council's financial sustainability rating as 'weak' in the short term, and its three-year outlook as 'neutral', the report also noted the following:

> "TCorp's Financial Assessment and Benchmarking Report was prepared based on an earlier *LTFP* [*Long Term Financial Plan*] which has now been superseded. The revised LTFP, recently adopted by [Blue Mountains City] Council, has been based on six key financial strategies that together address the key issues raised by TCorp. These strategies include renewing existing and seeking additional special variations for infrastructure and environment works, ceasing future loan borrowings subject to annual reviews of borrowing capacity, continuing to engage the community on achievement of affordable and acceptable levels of service, implementing service level reviews and adjustments to ensure value for money….Council's latest LTFP addresses …TCorp actions ….with the expectation being that Council will achieve a projected surplus operating result (excluding capital items) by 2023 of $500,000." (TCorp, 2013:5)

TCorp specifically highlighted the importance of the Council's financial strategies for increasing revenue and restricting loan funding. They made the following comments in their report:

> *When analysing the financial capacity of the Council we believe Council will not be able to incorporate any further loan funding in addition to the already forecast loans.*
>
> *Council to consider seeking extensions of the SRV [special rate variation] and Environmental Levy, which are critical to the Council's debt repayment abilities.*

2.4.3 Commitment to Financial Sustainability

The previous *Resourcing Strategy 2013-2023* included the *Six Point Strategy for Financial Sustainability*:

1. Avoid shocks
2. Balance the budget
3. Manage borrowings responsibly
4. Increase income
5. Adjust services
6. Increase advocacy and partnerships

The establishment of the above strategies was in response to growing concerns over long-term financial performance.

The *LTFP 2013-2023* highlighted the major concerns as follows:

- The Council's Operating Result for 2011-2012 was a deficit of $13.3 million, including annual depreciation of $30 million. The annual operating deficit is a clear indication that the Council must urgently address its long-term financial challenges.
- The Council's Asset Management Strategy estimated that, without additional income, the proportion of the City's built assets in poor condition would increase from 15% to 29% by 2023.
- Over the past decade, the Council used borrowings ($2.3 million annually) to fund asset management works and major projects. The cumulative impact of these asset works since 1999 resulted in an outstanding debt, as at 30 June 2012, of $48 million and by 30 June 2013 of $56.7 million.

- Interest payments and principal to service this debt costs the Council approximately $7 million per year. If the Council were to continue to borrow $2.3 million annually, this debt cost would increase to $10.4 million by 2023.
- The Council's debt service is within appropriate financial benchmarks for ability to service (repay) the debt; however, it has reached the Council's capacity to incur any further debt.
- Each year the Council is faced with operating costs that exceed the cash budget by $1-2 million. Costs are rising faster than revenue, it is not sustainable for the Council to contain expenditure without a reduction in service levels to the community and further deterioration of assets.

With the above guiding framework and the reported concerns over financial sustainability, the *LTFP 2013-2023* indicated that significant new revenues were needed to address the problem. Without the availability of alternate funding from State and Federal Governments, additional rate revenue is the only means of raising the magnitude of funds required to address sustainability. The *LTFP 2013-2023* proposed the following revenue strategy:

1. Renew the existing S508 (2) special variation for infrastructure that was set to expire on 30 June 2013.

   The Independent Pricing and Regulatory Tribunal (IPART) approved the continuance of this variation, which commenced 1 July 2013. The loss or non-renewal of this special variation would have resulted in an annual revenue loss of $1.9 million. The renewed variation has replaced the current program of annual borrowings. Subsequently there has been a reduction in the amount of funding for capital projects.
2. A further application to be made to IPART for the renewal of an existing S508(2) special variation, known as the 'Environment Levy', which is due to expire on 30 June 2015. The levy currently supports environmental management of land under the responsibility of the Council and raises around $1.5 million annually to fund environmental restoration projects across the City's natural environment.
3. A further application to be made to IPART for an additional special variation for significant infrastructure funding to eliminate the asset funding gap for maintenance and renewal within 20 years.
4. Replace current borrowings for asset works with funds from the continued special rate variation and initially reduce the funding for the asset works program. Over the longer term, this action will result in significantly more funds available for this essential work. After a period of consolidation of approximately five years, the Council will once again be in a position to reconsider further borrowings to address infrastructure failures and asset renewals.

2.4.4 The Council has financial burdens that are unique.

Limited opportunity for increase in new rateable properties

We have limited opportunity for new revenues from additional rates as population growth and land use development is constrained by the area's challenging topography and the City's location within a World Heritage Listed National Park.

The number of new rateable properties has been declining over the past 10 years *(Figure 2-8). O*n average only 70 new rateable properties have been created each year over the last 10 years. The value of DAs determined in 2012/13 was only 25% of the average for Group 7 Councils indicating a much lower level of development activity and lower level of increase to the rate base, (refer to OLG Comparative Information for Councils 2012/13).

http://www.olg.nsw.gov.au/sites/default/files/feeds/Blue%20Mountains_0.pdf)

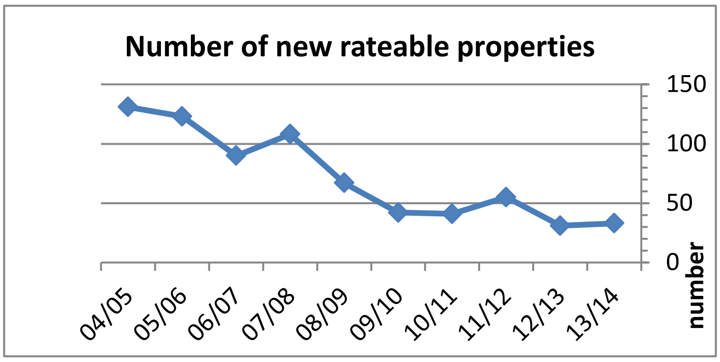


Figure 2-8 BMCC Number of rateable properties

Management of World Heritage and tourism

We incur additional expenses due to our location within the Greater Blue Mountains World Heritage Area involving costly measures to reduce the impacts of settlement on the natural environment.

We incur additional expenses due to the area being a major international and domestic tourism destination which is the mainstay of our local economy but results in the need to maintain infrastructure and services for tourists.

Demands for increasing service levels

We experience increasing expectations from residents for high levels of service equivalent to the Sydney metropolitan areas. These expectations are not realistic given the LGA's low-density ribbon development with services dispersed across 27 settlements over 100kms of mountainous ridgelines following the transport corridor. This settlement pattern necessitates duplication of services and facilities to ensure most of the community has reasonable access to services.

Management of bushfire risks

We are reliant on grant-based funding to assist with the work relating to natural disaster mitigation which, in the Blue Mountains, is largely focused on bushfire asset protection zones and fire trails. Bushfire asset protection zones and fire trails need to compete for funding with other core Council business needs and levels of service provision for increasingly limited resources.

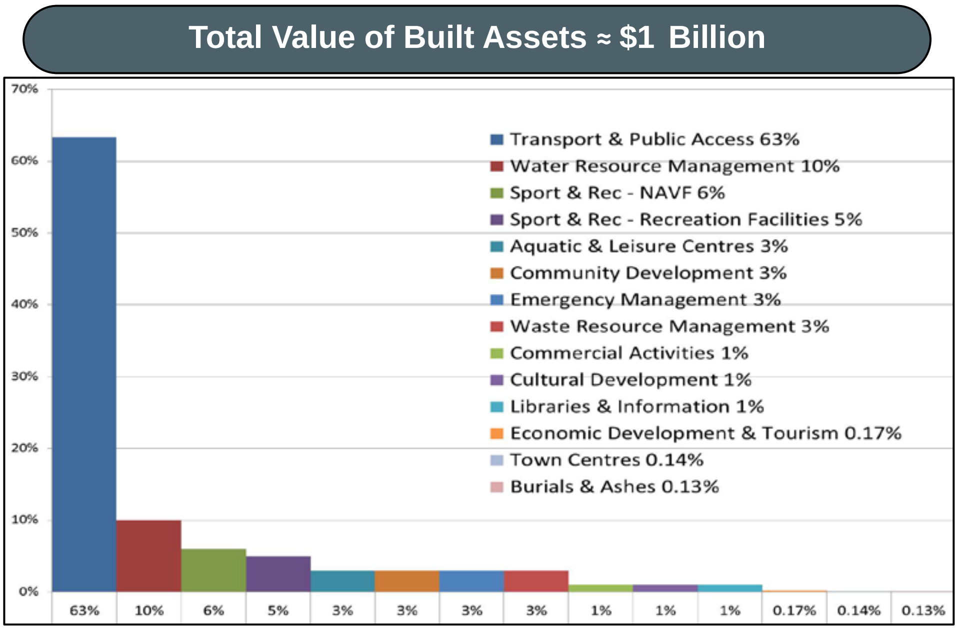
The Council is required to pay a prescribed amount of 11.7% of the cost of NSW State Government emergency management service provision in the Blue Mountains. Council is having to make reductions to its core service delivery in other areas to meet this cost.

Like other NSW councils, Council is also responsible for Rural Fire Service and State Emergency Service buildings, including the maintenance of these assets. The Council obtains additional emergency management revenue through Section 501 of the *Local Government Act 1993* and relevant regulations, which allows the Council to make an annual charge for the provision of emergency services and bushfire control. However, due to the rate pegging structure Council is not able to recover its share of the cost of emergency management services from the community.

Size of asset portfolio

The cost of the Council's built assets has increased over time with population growth and the fragmented and dispersed settlement pattern spread out over 100kms of mountainous terrain. The inheritance of a large network of National Park walking tracks has also added to the asset base. Such factors have led to the Council maintaining a large portfolio of Natural Area Visitor Facilities (NAVF) many of which are beyond the Councils' current funding capability to renew or replace.

The 2013 value of built assets is approximately $1 billion. Transport and public access functions, such as roads and footpaths, comprise 63% of total asset value *(Figure 2-9).*



Note that the graph above excludes $59.8M for the internal assets such as Fleet, Information Technology, Office Equipment and Operational Buildings.

Figure 2-9 BMCC value of built asset portfolio 2014

Cost of service delivery – economies of scale

Metropolitan Sydney Councils have larger populations and more compact urban areas than the Blue Mountains (see *Figure 2.1*), which allows them to achieve better economies of scale and productivity in service delivery. Many Sydney areas are also receiving substantial revenues through development contributions, which contribute to new facilities and renewal or replacement of assets.

In contrast, the unique topography of the Blue Mountains has resulted in the Council having a very high ratio of infrastructure per resident compared to other urban councils (see *Section 2.6.5*). The unique linear environment and settlement pattern results in logistical challenges and additional costs in service delivery, when compared to other councils. In Hawkesbury LGA, for comparison, the majority of that City's population resides within 15 kilometres of its operations whereas, Blue

Mountains City Council operations exist primarily in Katoomba and Springwood, to support 100km of linear settlements. (The comparison of the unique geographic characteristics of the Blue Mountains is further discussed in *Section 2.6.1 Limitations of rating comparisons to other councils*.

Impact of expiring Environment Levy

The Environment Levy enables the Council to protect our local environment in several ways that would not otherwise be funded through *General Fund* rates. Introduced in 2005, the aim of the Environment Levy was to restore and protect the natural environment including reinforcing the significant environmental improvements from the State Government funded by the Urban Run-off Improvement Program. This program supported the Council's efforts in managing the impacts of water run-off into the Greater Blue Mountains World Heritage Area and Sydney's Catchment Area.

The Levy costs the average ratepayer less than $1 per week and increases each year by the rate peg. It is due to expire on 30 June 2015. It raises around $1.6 million annually to fund environmental restoration and protection projects across the City's natural environment. With the use of Levy funds, the Council has secured co-funding agreements with Australian and State Government agencies attracting an additional $3.6 million plus for local environmental projects since 2005.

There are currently six key expenditure areas for the Environment Levy *(Table 2-2.)* The *Resourcing Strategy,* and associated asset and service planning work, will assess and outline for the community the impacts on the natural environment if the Levy is not being renewed come 1 July 2015.

Table 2-2 Key expenditure areas for the Environment Levy

1. Protect our local lifestyle	To preserve and repair popular creeks and waterfalls, bushland, wildlife and walking tracks.
2. Protect our drinking water	Healthy local creek systems and swamps are critical to our water supply, feeding water supply dams and acting as giant filters in the landscape, purifying our water.
3. Support local tourism and jobs	Looking after local creeks, bushland, and popular walking track networks supports our major drawcard for 2.7 million visitors a year, with flow on effects to the local tourism industry and local jobs.
4. Protect our World Heritage Area (WHA)	By managing weeds, urban stormwater damage and other urban impacts at the fringes of our City, we are helping to protect the WHA for generations to come.
5. Build healthy resilient bushland ready for climate change challenges	Ongoing restoration works prevent weeds from choking bushland and waterways, and urban stormwater from polluting and degrading our creeks and rivers. Healthy, robust bushland will also help local species survive additional pressures arising from climate change.
6.Deliver value for money for ratepayers	Management of over 10,000ha of natural areas in our care, including two lakes, over 300kms of waterways, 120kms+ of walking tracks and 85+ lookouts. It is up to *seven* times more cost effective to have a program of ongoing maintenance and repair to conserve intact ecosystems, than to re-establish them after they have significantly degraded. Through the Levy, Council has also attracted an additional $3.6million plus in revenue for local environmental projects since 2005; by securing co-funding agreements with Australian and NSW government agencies.

2.5 Council performance

This section provides an understanding of how the Council is currently performing, from the ratepayers' point of view, and the current ability of ratepayers to pay rates. It discusses:

- The 2014 Community Survey results and service performance trends
- What residents value most and the priority gaps in service delivery

2.5.1 What our residents think

In 2014, the Council ran a statistically valid, random telephone survey of approximately 500 residents. The following sections discuss the overall satisfaction of residents with Council performance, the gaps in service delivery and the issues of most concern for residents.

Overall satisfaction and value for money

The Council monitors its performance on service delivery, satisfaction with councillors and staff, and value for money. In the past four years, the Council's performance has been consistent and satisfactory. Overall, 60% of residents were satisfied with the performance of Blue Mountains City Council, which is considerably higher than the previous high of 52% recorded in 2012. Only 6% of residents were dissatisfied in 2014 compared to 11% in 2013 and 14% in 2012. A mean satisfaction score of 3.6 was achieved for Council's overall performance, the highest satisfaction score to date.

The main reasons cited for dissatisfaction with Council's overall performance was **'Lack of facilities, services and infrastructure'**.

Table 2-3 BMCC mean performance ratings for past four years

	Mean Performance Ratings(Out of 5)				
Key Performance Area	**2011**	**2012**	**2013**	**2014**	**Change 13-14**
Overall satisfaction with **Council** performance	3.21	3.43	3.42	3.60	
Overall satisfaction with **Councillor** performance	3.34	3.09	3.23	3.45	
Overall satisfaction with **Staff** performance	3.93	3.87	3.89	3.91	
Value for money	3.03	3.26	3.27	3.47	

2.5.2 Priority Gaps in Service Delivery

The service activities and facilities that were identified as furthest from meeting resident expectations are listed below in order of importance:

- Managing the bushfire risk on Council land
- Traffic safety for pedestrians and vehicles
- Litter control
- The atmosphere, look and feel of towns and villages
- Parking for shoppers
- Footpaths
- Access to local employment opportunities
- Public toilets in town centres
- Sealed roads
- Services and facilities for people with a disability
- Services and facilities for older people
- Management of stormwater and drainage

2.5.3 What is most important to residents?

When residents are asked about the top issues of concern for **their local neighbourhood**, the most commonly cited issue has consistently been Roads/Kerb/Footpaths, with Bushfire Prevention and Recovery also featuring prominently in 2014.

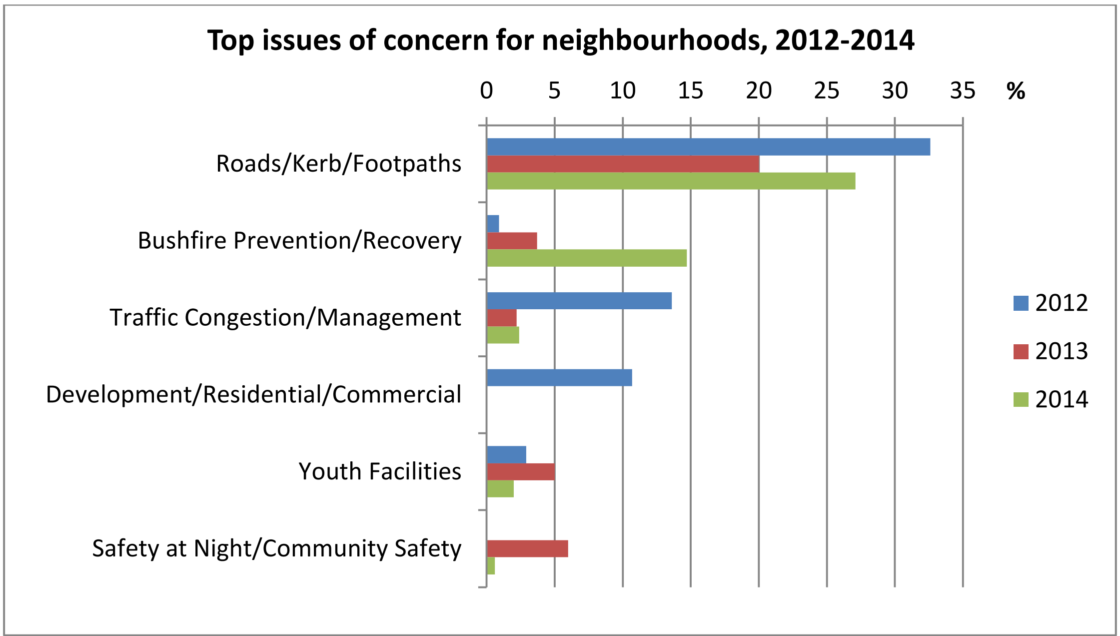


Figure 2.10 BMCC top issue of concern for local neighbourhoods, 2012, 2013 and 2014

When residents are asked about the top issues of concern for the **overall Blue Mountains area** (*Figure 2-11*), roads continues to be the most common response, followed by Bushfire Protection and Traffic Management.

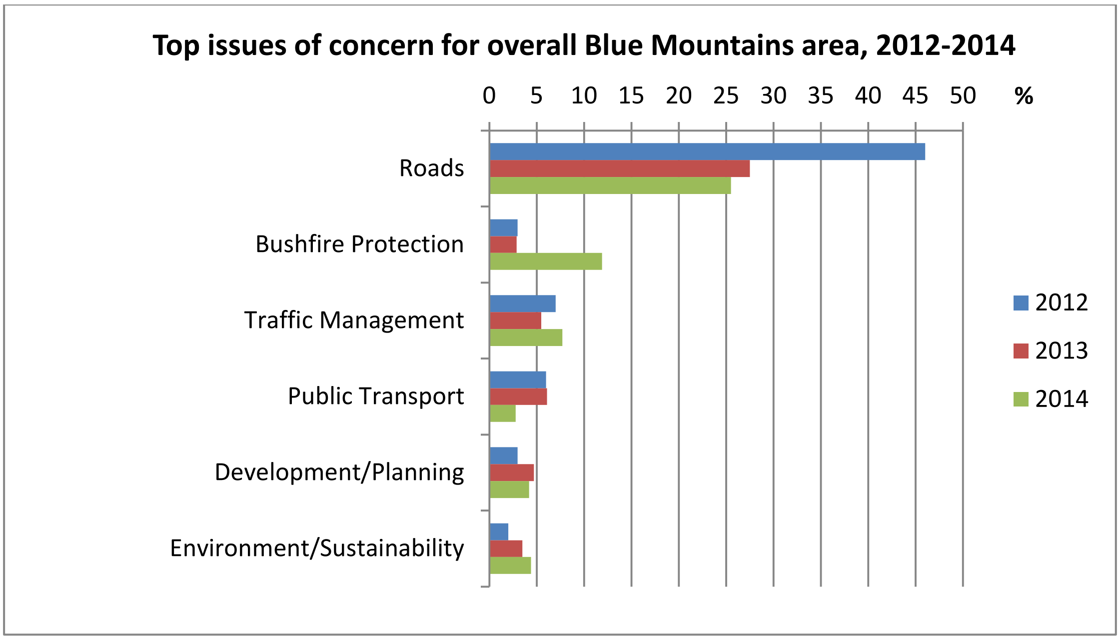


Figure 2-11 BMCC top issue of concern for overall Blue Mountains areas, 2012, 2013 and 2014

2.5.4 Value of natural assets to residents

The quality of the natural environment is important to Blue Mountains residents. "Looking After Environment" was rated as the most important key direction in the Council's 2014 community survey. The services that contribute to "Looking after Environment" include:

- Natural Environment
- Water Resource Management
- Waste Resource Management

A separate survey conducted in 2012 identified the features of the Blue Mountains natural area that residents valued most *(Table 2-4).*

Table 2-4 BMCC What the community values most about the Blue Mountains 2012

Performance Measure	1st mentioned (%)	2nd mentioned (%)	3rd mentioned (%)	Total (%)
Bushland	28.2	17.6	15.3	61.1
Habitat for native animals	16.5	20.0	15.3	51.8
Sense of community	20.0	10.6	15.3	45.9
Peace and quiet	9.4	16.5	16.5	42.4
Scenery	10.6	11.8	11.8	34.2
Natural condition of rivers and waterways	7.1	5.9	14.1	27.1
Native bush near waterways	5.9	7.1	5.9	18.9
Places to swim, boat and fish	1.2	4.7	1.2	7.1
Land for agriculture	0.0	2.4	0.0	2.4
Nothing on list	1.2	2.4	1.2	4.8

(Source: Natural Assets AMP – Iris Research (2012) Hawkesbury Nepean Catchment Survey – Management Report. Wollongong.)

2.5.5 Summary

The above discussion has considered the known service gaps from community surveys. The performance gaps in services are indicative of asset deterioration and the inability of Council to fund new assets and facilities. The long-term forecast is that dissatisfaction will rise in line with the inability of Council to provide sufficient funding for asset maintenance and renewal.

Analysis of the survey data reveals four priority areas on which to focus service improvement into the future:

- Built Infrastructure
- Emergency Preparedness & Response
- Environment
- Community & Recreation

Without doubt, the devastating impact of the October 2013 bushfires has raised concerns about emergency management priorities. The City's ageing population has also reflected service needs for improved transport mobility. The natural environment is highly valued and its high quality is imperative for environmental sustainability. The community also deems improvement to community service programs and facilities necessary, particularly for youth, elderly, disabled or disadvantaged. The ability to resource improvements and the allocation of funding to all Council service areas is also dependent on the priorities that stem from service and asset planning work.

2.6 Comparative study/rating levels

2.6.1 Limitations of rating comparisons to other councils

The Office of Local Government (OLG) classifies Blue Mountains City Council as a Group 7 council for the purpose of comparative data reporting. The allocation to a 'group' is determined from the Australian Classification of Local Governments (ACLG) system , which classifies councils according to the degree of urbanisation and population size. In *Table 2-5* the Blue Mountains profile fits the classification of Category 12, and alpha UFL (urban, fringe large), which belongs to the Group 7 Councils of: The Hills, Hornsby, Liverpool, Campbelltown, Penrith, Gosford, Wyong and Blue Mountains.

Table 2-5 Australian (urban) classification of local governments (system)

Step 1	Step 2	Step 3		Category	Alpha	DLG group No.
URBAN (U)						
	Capital City (CC)	Not applicable		1	UCC	1
Pop. > 20,000	***Metropolitan Developed (D)***	Small (S)	up to 30,000	2	UDS	2
	Part of an urban centre > 1,000,000 and pop. density > 600/sq km.	Medium (M)	30,001-70,000	3	UDM	
		Large (L)	70,001-120,000	4	UDL	3
or		Very large (VL)	> 120,000	5	UDV	
Pop. density > 30 persons per sq km	***Regional Town/City (R)***	Small	up to 30,000	6	URS	4
	Part of an urban centre with population <1,000,000 and predominantly urban in nature.	Medium	30,001-70,000	7	URM	
		Large	70,001-120,000	8	URL	5
or		Very large	>120,001	9	URV	
>90% of LGA population is urban	***Fringe (F)***	Small	up to 30,000	10	UFS	6
	A developing LGA on the margin of a developed or regional urban centre.	Medium	30,001-70,000	11	UFM	
		Large	70,001-120,000	12	UFL	7
		Very large	>120,001	13	UFV	

In the latest *National Local Government Report 2010-11* NSW, the Blue Mountains LGA is the only council in NSW with the classification 'UFL', and one of four nationally classified as UFL. As such, the Blue Mountains LGA does not readily fit into a group classification system for comparative reporting.

The other Group 7 Councils do not demonstrate geographic and population characteristics similar to Blue Mountains. Fundamentally, the classification system ignores external constraint variables such as access to revenue, built asset backlogs, and the cost of environmental management. An example of comparative differences in performance reporting is found with Hawkesbury, Penrith and Baulkham Hills councils where the performance in weed management is outsourced to the Hawkesbury River County Council. Performance comparison in this area therefore cannot be determined by the OLG's comparative reports. The Council also argues that given the unique fiscal and geographic characteristics that it faces, it is impossible to make adequate comparison of Blue Mountains against other councils. The Council asserted its views on this matter in a submission to the Office of Local Government in February 2014 on the proposed new framework for measuring performance in local government. In summary, the submission argued:

> *In respect to the proposal for comparable performance of the council to other like councils, it is highly probable that 'like' councils are in fact few. Thus, when reporting council performance and community outcomes, each council's result will differ in accordance with their strategic priorities for the council and community, as reflected in the CSP and Resourcing Strategy. For comparative information to be meaningful to community and other DLG or state agency reviewers, it would need to understand the uniqueness of each LGA.*
>
> *…a centralised comparative performance management system is likely to praise those councils, which have the economic good fortune to produce success, while perceived under-performance in other councils may be due to a problematic environment that is comparatively under-funded.*

Despite the limitations discussed above, a comparative study of Group 7, Group 6 (Hawkesbury, Camden, Wollondilly), neighbouring LGAs (Oberon and Lithgow), and select LGAs with geographic similarities is provided in this report.

2.6.2 Socio-economic indicators

SEIFA Relative Disadvantage ranking

The comparative table shows population size and state ranking of the SEIFA Index of Relative Socio-economic Disadvantage (IRSD).

Table 2-6 Councils in the comparative study, their IRSD ranking and population

LGA	Australian Urban Classification and comments	State Ranking Disadvantage* IRSD	Population - usual resident
The Hills	Group 7	148	169810
Hornsby	Group 7	144	156862
Camden	Group 6	132	56724
Blue Mountains	**Group 7**	**128**	**75930**
Wollondilly	Group 6	126	43247
Hawkesbury	Group 6 & an adjoining LGA	121	62324
Gosford	Group 7	115	162460
Penrith	Group 7 & an adjoining LGA	110	178469
Oberon	Adjoining LGA	87	5027
Coffs Harbour	Similar population density	67	68428
Shoalhaven	Similar Linear development of city	62	92724
Wyong	Group 7	55	149732
Liverpool	Group 7	51	180172
Campbelltown	Group 7	43	145938
Lithgow	Adjoining LGA	23	20142

*Lower # score = more disadvantaged Local Government Area

- Blue Mountains IRSD relative disadvantage ranking is 128 out of 153 councils, which indicates that it is one of the 20% of **least**-disadvantaged local government areas in NSW.
- The Blue Mountains IRSD ranking is closest to Group 6 councils: Camden, Wollondilly, and Hawkesbury.
- The Blue Mountains is closest in population size to Hawkesbury and Coffs Harbour. Hawkesbury's ranking of disadvantage is similar to Blue Mountains whilst Coffs Harbour has a higher level of disadvantage.

Tenure

Table 2.7 compares the proportion of households that fully own or are renting residential properties. The percentage of lone persons and median age of the LGA is also included in the table to support comparison of household characteristics.

Table 2-7 Comparison of tenure, median age and proportion of lone person households (Census 2011).

Areas for comparison (including LGAs)	Privately owned dwellings	Fully Owned	Tenants	Lone Person Households	Median Age
The Hills	57166	36.0%	15.6%	12.0%	38
Hornsby	57104	36.8%	20.3%	17.7%	39
Camden	19339	26.0%	18.7%	14.5%	34
Blue Mountains	**33254**	**37.4%**	**19.2%**	**25.6%**	**42**
Wollondilly	15455	30.8%	16.3%	16.1%	36
Hawkesbury	23365	29.9%	24.9%	20.4%	36
Gosford	73715	35.2%	25.9%	27.3%	42
Penrith	64743	26.8%	26.7%	19.2%	34
Oberon	2554	42.0%	23.0%	26.9%	41
Coffs Harbour	30611	35.6%	31.8%	26.6%	42
Shoalhaven	51386	43.4%	25.0%	27.7%	46
Wyong	65590	33.9%	28.2%	26.2%	40
Liverpool	58834	24.1%	30.4%	16.0%	33
Campbelltown	51279	24.2%	30.4%	18.7%	33
Lithgow	9429	40.2%	24.3%	30.7%	42
Greater Sydney		30.4%	31.6%	22.6%	36
Rest of NSW		37.7%	27.6%	26.9%	41
NSW		**33.2%**	**30.1%**	**24.2%**	**38**
Australia		**32.1%**	**29.6%**	**24.3%**	**37**

The Blue Mountains has:

- a higher proportion of properties that are fully owned (37.4%) compared to the average for NSW (33.2%)
- a smaller proportion of rented properties (19.2%) than the average for NSW (30.1%)
- low tenancy rates similar to the tenancy rates of Sydney Metropolitan fringe councils Hornsby, Camden and Wollondilly
- characteristics of high median age, high proportion of homes fully owned and high proportion of lone person households that are more closely aligned to the characteristics of the 'Rest of NSW' than 'Greater Sydney'

Unemployment and housing stress

The extent of unemployment and housing stress are two key indicators of a households' ability to pay living expenses. *Table 2-8* shows the comparative position of Blue Mountains to other councils and the larger statistical areas.

Table 2-8 Comparison of other household economic characteristics (source: census 2011)

Areas for comparison (including LGAs)	State Ranking Disadvantage* IRSD (2011)	Unemployed%	Mortgage Stress** %	Rental Stress** %
The Hills	148	4.2%	14.5%	5.4%
Hornsby	144	4.8%	11.6%	7.7%
Camden	132	4.0%	16.7%	6.7%
Blue Mountains	**128**	**4.9%**	**10.5%**	**8.4%**
Wollondilly	126	4.2%	16.5%	5.9%
Hawkesbury	121	4.6%	14.4%	10%
Gosford	115	6.1%	10.2%	10.6%
Penrith	110	5.5%	13.2%	9.8%
Oberon	87	4.8%	7.4%	5.9%
Coffs Harbour	67	8.3%	8.6%	14.3%
Shoalhaven	62	7.6%	8.3%	10.3%
Wyong	55	7.8%	10.2%	12.5%
Liverpool	51	7.0%	16.7%	12.2%
Campbelltown	43	7.4%	13.1%	10.6%
Lithgow	23	7.2%	6.6%	8.5%
Greater Sydney		5.7%	12.0%	12.6%
Rest of NSW		6.1%	8.0%	10.0%
NSW		5.9%	10.5%	11.6%

*Lower score = more disadvantaged local government area
**Households where mortgage or rent payments are more than 30% of household income

The positioning of Blue Mountains in *Table 2.8* reveals that Blue Mountains has:

- One of the lowest unemployment rates of the areas for comparison
- Moderate mortgage stress that is on par with NSW, but lower than Greater Sydney
- Very low rates of rental stress, compared to the average for NSW, Australia, Greater Sydney and Rest of NSW

2.6.3 Council rating comparison 2014-2015

The following table 2-9 shows the 2014/15 average rating comparison for Residential, Farmland, and Business categories and the number of rated properties (assessments). Coffs Harbour and Campbelltown have been awarded rate increases for the year 2014/2015. The 2014-2015 rates reflect these awarded increases.

Table 2-9 Comparison of average residential, farmland, and business rates 2014/2015

LGA	Average annual Residential rate	Average annual Farmland rate	Average annual Business rate
The Hills	$ 1,018	$ 1,592	$ 1,922
Hornsby	$ 1,190	$ 1,914	$ 2,347
Camden	$ 1,291	$ 2,768	$ 4,599
Blue Mountains	**$ 1,272**	**$ 2,021**	**$ 3,071**
Wollondilly	$ 1,376	$ 2,489	$ 2,092
Hawkesbury	$ 1,073	$ 2,321	$ 1,906
Gosford	$ 936	$ 1,080	$ 2,564
Penrith	$ 1,114	$ 3,198	$ 6,773
Oberon	$ 532	$ 1,356	$ 747
Coffs Harbour	$ 1,066	$ 1,847	$ 3,577
Shoalhaven	$ 970	$ 1,984	$ 1,143
Wyong	$ 997	$ 2,648	$ 3,491
Liverpool	$ 1,077	$ 3,062	$ 6,169
Campbelltown	$ 1,005	$ 6,725	$ 6,179
Lithgow	$ 700	$ 1,353	$ 3,330
Average	**$ 1,040**	**$ 2,378**	**$ 3,340**

Residential Rate

- Blue Mountains landowners pay the third highest average rates ($1,272) in the table of comparison LGAS, behind Wollondilly ($1,376) and Camden ($1,291)

Business Rate Comparison

- The Blue Mountains City Council average business rate ($3,071) is higher than The Hills ($1,922), Hornsby ($2,347), Wollondilly ($2,092) and Hawkesbury ($1,906), but lower than Camden ($4,599), Penrith ($6,773), Liverpool ($6,169) and Campbelltown ($6,179)

  Note: there are only 1309 business-rating assessments in the Blue Mountains

Farmland Rate Comparison

- The average Farmland rate ($2,021) is competitive with other regions and is lower than Hawkesbury ($2,321) and Wollondilly ($2,489)

  Note: There are only 140 farmland assessments in the Blue Mountains

The Council considers that the residential and business rates reflect:

- The residential rate supports a higher level of service provision, for example, the number of pools and libraries provided per person, compared to other Councils
- The business rate maintains expenditure in town centres to support the vitality of businesses, protect the image of the tourism brand and maintain high rates of tourism trade across all of its town centres and villages

Residential rate as proportion of household income

The proportion of the median residential household income (2011) required to pay the average residential rate (2014/2015) is compared in *Table 2-10*. *Figure 2-17* shows the spatial distribution of household income.

Table 2-10 Average residential rates 2014/15 as a % of average household income (Census 2011)

Comparison Area (including LGAs)	average annual Residential rate (2014/15)	State Ranking Disadvantage* IRSD	Median Weekly Household Income (2011)	% of median household income (2011) spent on Residential (2014/15)rates
The Hills	$ 1,018	148	$ 2,044	0.96%
Hornsby	$ 1,190	144	$ 1,824	1.25%
Camden	$ 1,291	132	$ 1,727	1.44%
Blue Mountains	**$ 1,272**	**128**	**$ 1,270**	**1.93%**
Wollondilly	$ 1,376	126	$ 1,478	1.79%
Hawkesbury	$ 1,073	121	$ 1,385	1.49%
Gosford	$ 936	115	$ 1,089	1.65%
Penrith	$ 1,114	110	$ 1,398	1.53%
Oberon	$ 532	87	$ 988	1.04%
Coffs Harbour	$ 1,066	67	$ 902	2.27%
Shoalhaven	$ 970	62	$ 822	2.27%
Wyong	$ 997	55	$ 934	2.05%
Liverpool	$ 1,077	51	$ 1,299	1.59%
Campbelltown	$ 1,005	43	$ 1,251	1.54%
Lithgow	$ 700	23	$ 896	1.50%

*Lower # score = more disadvantaged local government area.

The analysis shows:

- The Blue Mountains Median Weekly Household Income ($1270), is above the State ($1237) and National ($1234) average, but slightly below Greater Sydney ($1447)
- The average income of lower socio-economic areas including Campbelltown ($1251) and Liverpool ($1299) is similar to the average income of Blue Mountains ($1270)
- Areas with a higher household income including The Hills ($2044), Hornsby($1824), Camden ($1727) and Wollondilly ($1478), as well as with the Blue Mountains ($1270), are all in the top 20% of least disadvantaged LGAs
- Blue Mountains average residential rates, as a percentage of average household income (1.93%), is less than the more disadvantaged areas of Coffs Harbour (2.27%), Shoalhaven (2.27%), Wyong (2.05%) and Greater Taree (2.56%)

2.6.4 Other indicators

Comparative assessments of key infrastructure are provided in the 2011 comparative data published by the Office of Local Government. The reliability of this data is questionable due to factors of interpretation (e.g. number of pool complexes or number of physical pools) and unaudited reporting. *Table 2-11* shows these comparisons and includes comparison of pensioner rebates.

Table 2-11 Comparative data - key infrastructure and pensioner rebates (OLG comparative data 2013)

LGA	Pools, Rock pools	Libraries	Public halls	Open space (hectares)	Roads (metre road per person)	Pensioner rebates % of rateable properties
The Hills	1	5	57	1322	5.3	13%
Hornsby	3	5	31	2360	4.0	14%
Camden	2	2	14	419	7.9	12%
Blue Mountains	**5**	**6**	**17**	**6566**	**9.4**	**18%**
Wollondilly	2	1	15	540	18.5	17%
Hawkesbury	1	2	25	218	15.9	14%
Gosford	10	8	36	30768	6.7	21%
Penrith	2	4	51	868	5.6	15%
Oberon	1	1	1	30	182.5	17%
Coffs Harbour	4	3	14	771	11.9	21%
Shoalhaven	12	4	27	2029	18.3	23%
Wyong	4	5	48	3180	6.7	23%
Liverpool	3	5	26	1599	4.4	15%
Campbelltown	3	5	20	1119	4.6	14%
Lithgow	1	5	13	188	42.9	25%

The comparative data shows that Blue Mountains City Council has, in relation to the comparison LGAS, has a relatively high proportion of:

- Pools - fourth highest number of pools behind Shoalhaven, Gosford and Greater Taree
- Libraries – second highest number of libraries, behind Gosford
- Open space – second highest hectare provision
- Roads – when compared with local governments that are predominantly urban and have nil or limited farmland assessments the road length per person in Blue Mountains is high
- Pensioner rebates

The fragmented nature of towns and villages in the Blue Mountains local government area has resulted in the provision of road networks *(Figure 2-13)* and open space *(Figure 2-12)* greater than outer metropolitan areas of Sydney, and other 'Group 7' councils. The economic burden is also increased through new residents relocating to the Blue Mountains from higher density urban areas who have expectations that supply of public goods and services will be provided to the same level and quality to which they were accustomed.

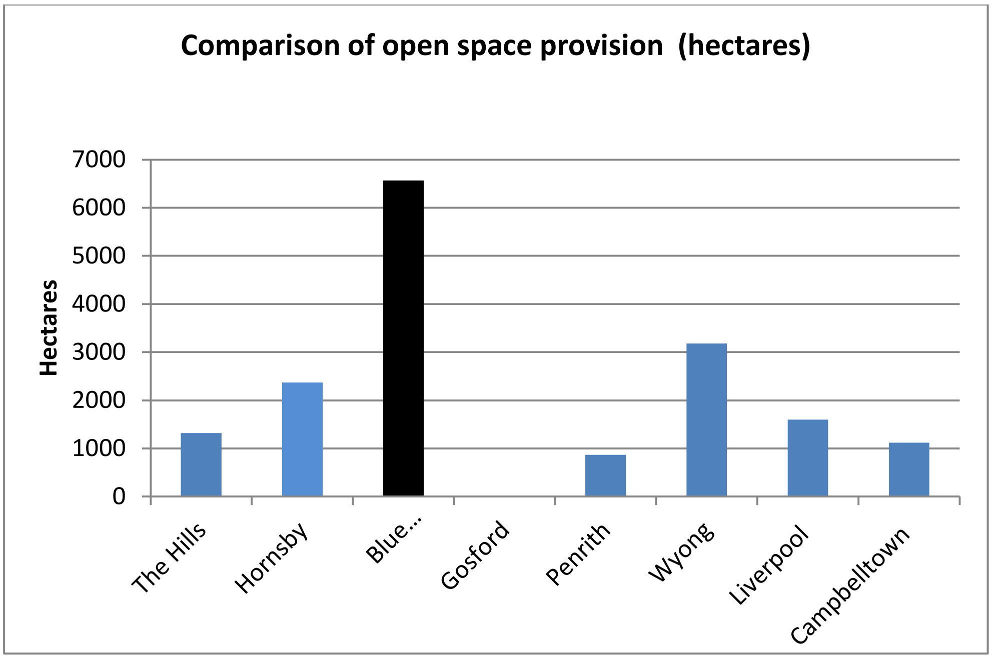


Figure 2-12 Comparison of Blue Mountains, and other Group 7 councils (Source: DLG comparative data 2012-13)

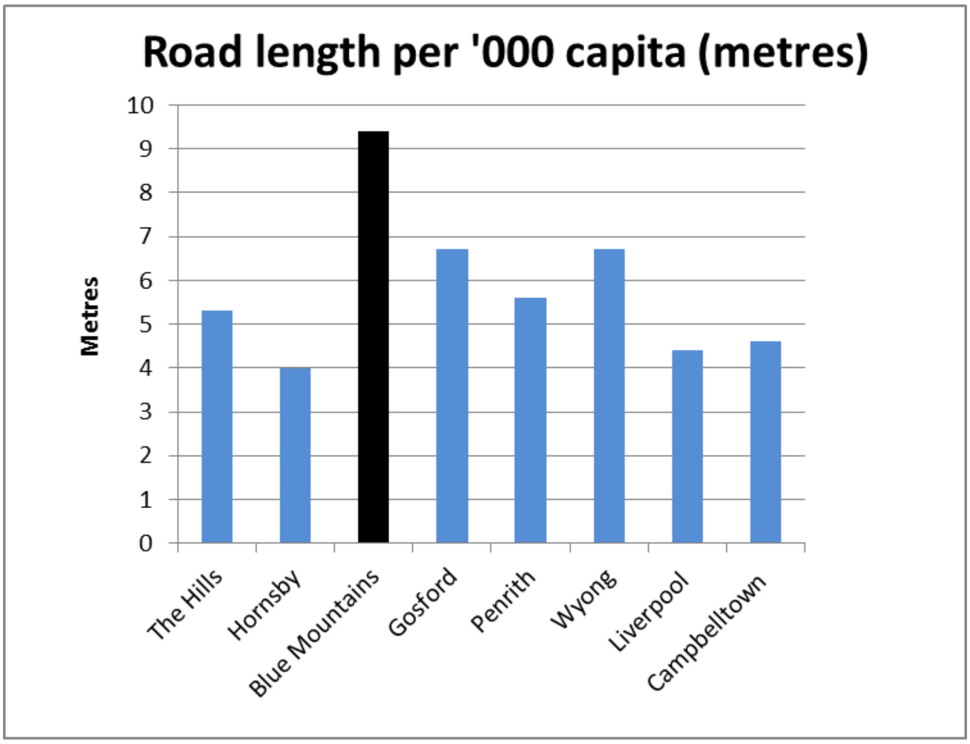


Figure 2-13 Comparison of road lengths, Blue Mountains, Hornsby, The Hills, Camden, Penrith and Campbelltown local government areas (Source: DLG comparative data 2012-13)

2.6.5 Other comparisons: population density and infrastructure renewal

Rates represent only 48% of the Council's revenue. *Table 2-12* compares the total available revenue per capita against the Building and Infrastructure Renewal Ratio (BIRR) and population density. The BIRR is a ratio used by the Office of Local Government.

Low density and high population is an indication that a LGA will have high costs in servicing dispersed services; for example, length of road network, and duplication of facilities across their LGA. The BIRR measures a council's ability to fund renewal of 'roads, drainage, and building assets' compared to the amount of funding projected to be required from depreciation expenditure requirements. That is, road, drainage and building asset renewal expenditure divided by depreciation expenditure. A result greater than 100% = Good, Less than 100% = Unsustainable. It is important to note that the BIRR has some shortcomings a reliable measure of asset renewal for a number of accounting reasons, such as the sensitivity of depreciation (calculations and revaluations). It is a measure that fluctuates annually according to capital works programming.

Table 2-12 Comparison of population, density, building infrastructure renewal rate (Source: OLG comparative report 2012/13)

LGA	**Population**	**Area km^2**	**Population density (persons/Ha)**	**BIRR**
The Hills	180214	400.6	449.86	135.10%
Hornsby	165090	462.3	357.11	52.70%
Camden	60546	201.3	300.77	31.70%
Blue Mountains	**78691**	**1432.0**	**0.54**	**47.70%**
Wollondilly	45322	2556.6	17.73	63.40%
Hawkesbury	64592	2775.8	23.27	85.30%
Gosford	169528	1028.0	180.29	89.30%
Penrith	186938	404.8	461.80	53.60%
Oberon	5214	3628.0	1.44	135.90%
Coffs Harbour	70990	1175.1	60.41	22.00%
Shoalhaven	96927	4530.6	21.39	31.20%
Wyong	155767	740.1	210.47	71.90%
Liverpool	191244	305.5	626.00	110.30%
Campbelltown	152612	312.3	488.67	52.10%
Lithgow	21009	4513.8	4.65	188.40%
AVERAGE	105815	**1762.4**	**449.86**	**71.37%**

The comparison shows that Blue Mountains:

- Population density is extremely low (0.54 persons per hectare) compared to the average of the comparison LGAs (449.86). The density compares more closely to rural areas of Oberon and Lithgow. However the Blue Mountains population is urban, spread over a long narrow band, rather than a dispersed rural population with a lower expectation around services.
- Has a BIRR of 47.7% that is, like most councils, below the sustainable level of 100.

In summary, asset renewal in the Blue Mountains is burdened by limited funds to service a relatively high population base, with low-density development, and a hard to manage topography that consequently results in costly and expansive provision of infrastructure and facilities.

2.6.6 Summary of factors influencing service delivery

Table 2-13 highlights the key findings of factors that influence the cost of service delivery in the Blue Mountains Local Government Area.

Table 2-13 BMCC factors influencing service delivery – findings of comparative council study

Other Comparative Information	We have the 2nd highest number of libraries (5) behind Gosford (8). Seven councils have 5. Camden = 2 and Hawkesbury = 2, and Wollondilly = 1	We have a moderate number of halls (17) when compared to other councils. Penrith provide the highest number of halls (51)	We have the second highest provision or open space to manage (6566 ha) behind Gosford (30,768 ha), and far greater than Wollondilly (540ha), Hawkesbury (218ha) and Camden (419ha)
	We have the third highest number of pool centres (5) behind Shoalhaven (12) and Gosford (10). All other councils average 2.6 pools	We have a very low population density (0.54) compared to the average (449.86). Low density means that the extent of our infrastructure and services is more spread-out than others and therefore more costly to provide	We manage the largest road length per capita (9.4 metres) when compared to other comparison LGAs that have few farmland assessments
	We have the highest proportion of pensioner rebate (18%) of the comparison LGAs in Greater Sydney	Our council land area is approximately 3 times greater than the size of Sydney Metropolitan Councils (excluding Camden and Wollondilly, Hawkesbury)	Our built infrastructure renewal ratio (47.70%) is below sustainable levels (100%) and below the average ratio of comparison LGAs (71.37%)

2.7 Capacity to pay additional rates: preliminary assessment

The data gathered to inform the impact of LTFP financial scenarios requires an understanding of:

1. the level of payment of rates by ratepayers
2. the number of financial hardship claims made to the Council in respect to paying rates
3. the socio-economic status of residents including:
    - SEIFA Index of Relative Disadvantage (IRSD)
    - Tenure
    - Unemployment
    - Household income
    - Mortgage and rental stress
    - Lone person households

4. comparison of rating structures with other councils as a useful indication of whether current rates are reasonable

IPART undertakes a comparative assessment of special rate applications. IPART's comparative analysis includes:

- Average rate comparison: residential, farmland, business
- Comparison of average rates as proportion of average household income

This *Capacity to pay additional rates* section is informed by the previous section's analysis of the current 2014-2015 rates and a number of socio-economic factors. In addition, to this analysis, the discussion below on recent rating structure reform work, outstanding rate payments, and hardship claims is also useful in forming a view as to whether there is capacity for ratepayers in general to pay higher rates.

2.7.1 Addressing rating equity, fairness and hardship

In June 2012, the Council endorsed a reform of the current rating structure to ensure its structure was simple, fair and broadly uniform having regard for land valuations serving as a measure of capacity to pay.

At that time there were 26 different *ad valorem* rates and significant inequities in rating between properties of similar value in different parts of the City. The structure was outdated, inefficient, not fully compliant with the *Local Government Act* and, furthermore, it did not allow for a fair and equitable rating of the City's ratepayers.

Community consultation on a new rating structure was undertaken in 2011 and 2012 and Council resolved in June 2012 to implement its rating reform program over a three-year period from 2012/13 to 2014/15 to ease the impact of adjustments on ratepayers.

The reform resulted in the compression of the highest and lowest *ad valorem* rates within the Residential and Business categories, moving towards a single rate and a single category for each by 2014-2015. In addition, a small increase was made to the Business category in order to decrease residential rates. The reform has been undertaken over a three-year period to lessen the impact of changes on ratepayers.

One major effect of the reforms is that the minimum rate for residential (excluding the small population of North/West mountain villages and rural residential) was reduced from $930.50 to $520.10. The decrease to the minimum rate has lowered the rates payable for low land valuation properties and therefore has increased the capacity for these ratepayers to absorb future intended rate rises.

2.7.2 Improved recovery of outstanding rates

The Council has consistently reported an outstanding rates ratio that is below the industry benchmark of 5.0% *(Figure 2-14)*. The Council's performance in debt recovery demonstrates good financial management by the Council and is an indication that a very high proportion of residents are managing to pay their rates on time.

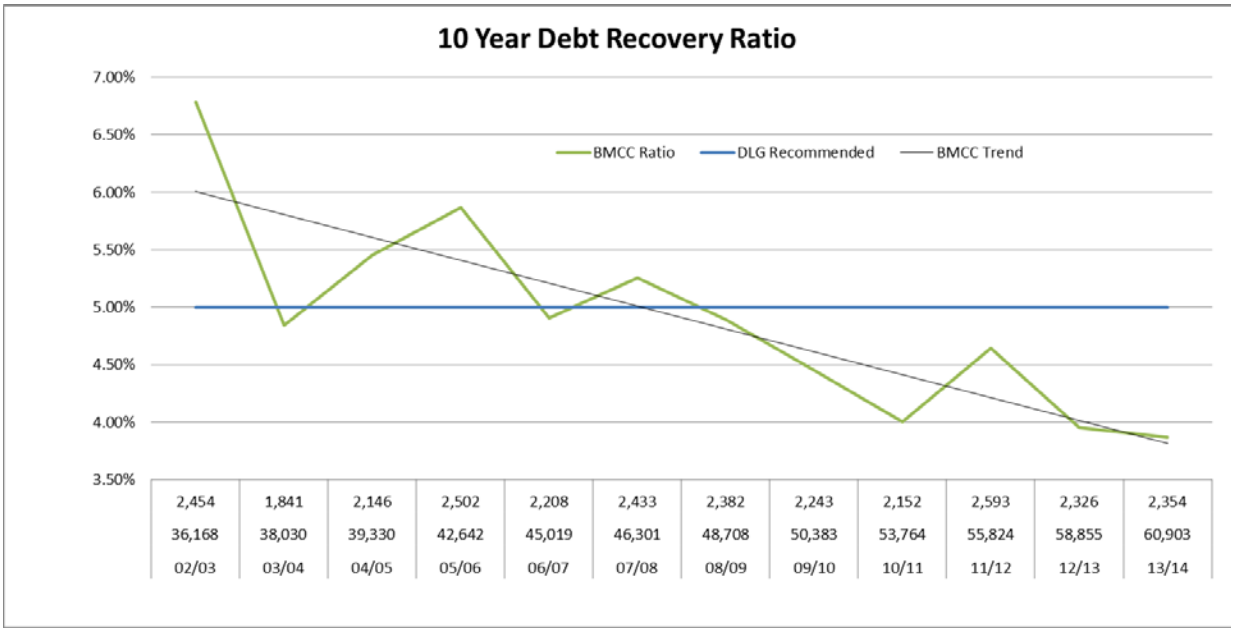


Figure 2-14 Outstanding rates recovery ratio - Blue Mountains City Council 2003-2013

Ratepayers are charged a minimum rate amount plus an *ad valorem* rate, which is a rate in the dollar against unimproved land values. The 2014-2015 Operational Plan indicates *ad valorem* amounts for Residential, Farmland and Business rates as follows:

- Residential: 0.00570618
- Farmland: 0.00372667
- Business: 0.00879115

Table 2-14 compares land values across the LGA to neighbouring Hawkesbury LGA. Average land values progressively decline for settlements heading west, away from the Sydney region. Rates charged in the Upper Mountains will be lower than rates in the Lower Mountains as properties in the Lower Mountains have a higher land value and the ad valorem rate remains constant throughout the mountains.

Table 2-14 Average land values, Population and median age of statistical regions in the Blue Mountains, compared to Hawkesbury city

Census Statistical Area (SA2)	Average Land Values $	Population	Median Age
Blackheath-Megalong Valley	179,858	5461	47
Katoomba-Leura	197,835	12921	45
Wentworth Falls	230,161	5934	48
Lawson-Hazelbrook-Linden	193,818	11081	40
Springwood-Winmalee	226,896	21773	40
Blaxland-Warrimoo-Lapstone	268,368	18498	39
Hawkesbury City	305,124	64592	36

- Average household income progressively decreases across Blue Mountains settlements with distance from Greater Sydney
- Higher household incomes are dominant in the settlements closest to Greater Sydney

2.7.3 Number of hardship claims

The Council has a *Hardship Relief Policy* in place for persons having trouble paying their rates

- Council approves an average of around 10 hardship claims per annum
- Pensioners demonstrate the greatest difficulty in paying rates

Ratepayers that suffered property loss due to the October 2013 bushfires are amongst those behind in rate payments but there have been no applications for hardship by ratepayers affected by the 2013 bushfires at this stage

Figure 2-15 Low income households (Source: idprofile.com.au)

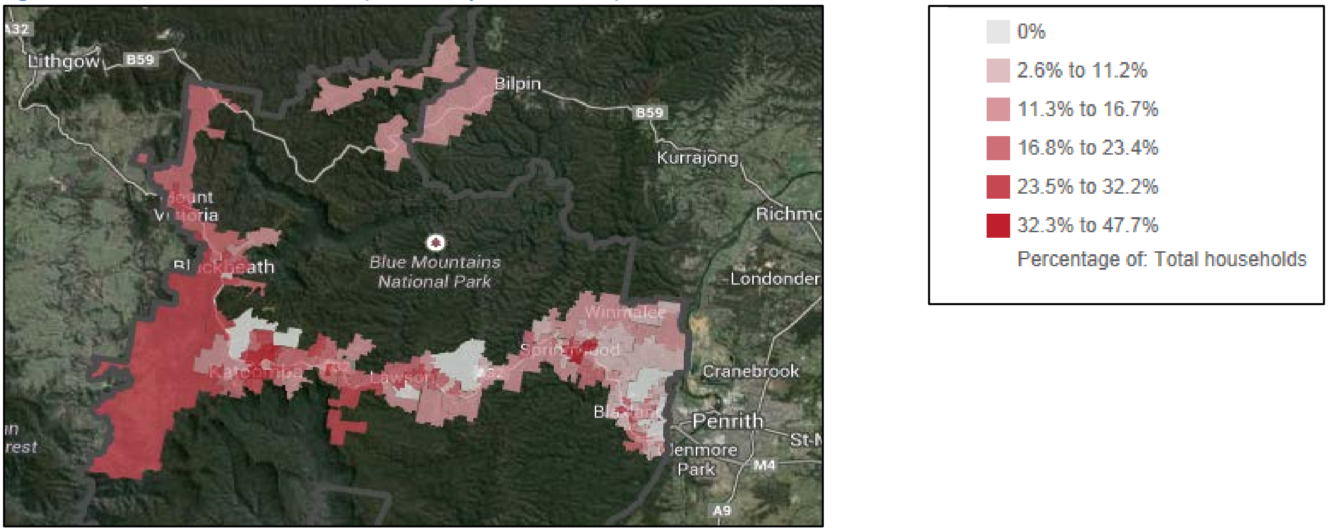


Figure 2-16 High income households (Source: idprofile.com.au)

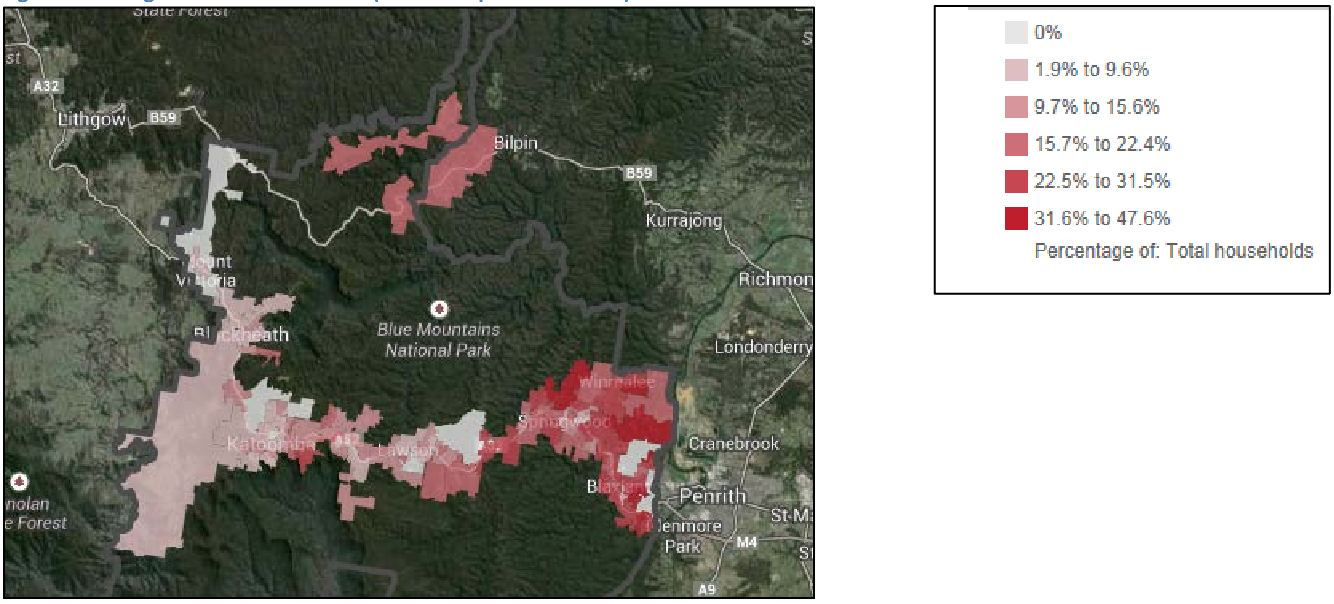
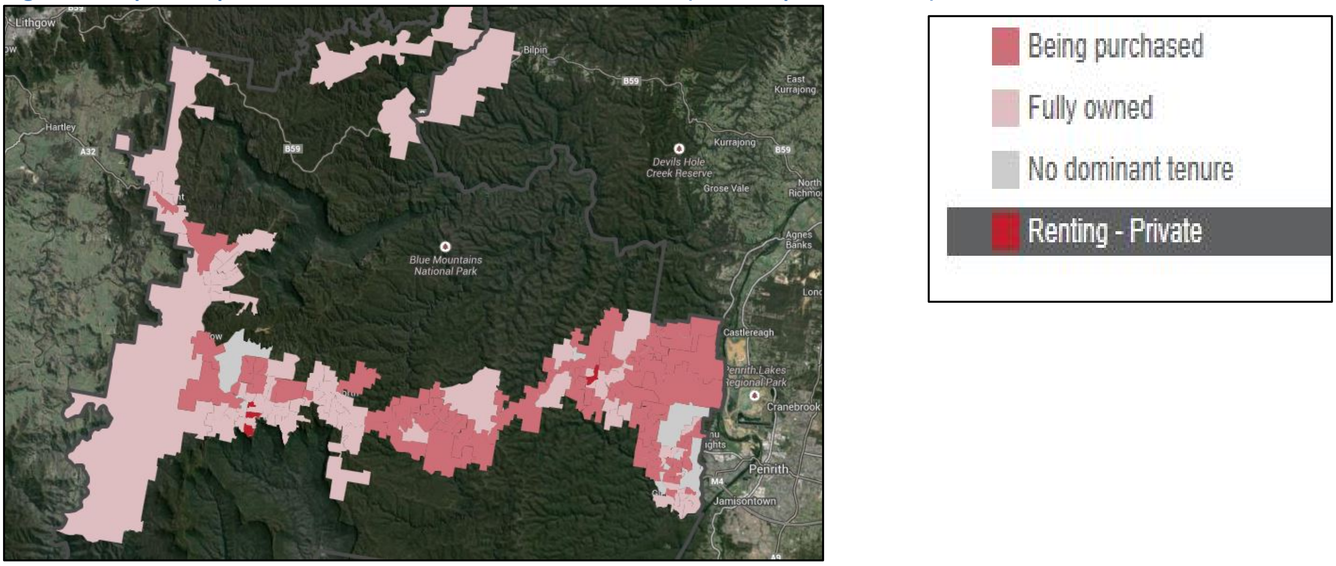


Figure 2-17 Spatial representation of land tenure in Blue Mountains (source idprofile.com.au)



2.7.4 Summary

The findings of the comparative analysis concludes there are a number of socio-economic arguments that support the Council's ability to increase rates, though this section does not propose what is an acceptable level of rate increase. The role of the LTFP is to propose various financial scenarios with funding options. In addition, the final decision in respect to making a special rate variation application to IPART is dependent on engagement with the community on their capacity and willingness to pay additional rates, and whether the proposed rate increase is reasonable, having regard to the purpose of the special rate variation.

It is important to note, that the comparative performance of the Blue Mountains LGA against other local government areas is difficult to assess as the Blue Mountains is the only council in NSW with the classification 'urban fringe large' (UFL), and only one of four nationally classified as UFL. This means that there are no other urban fringe local government areas in the State of similar population size and urban characteristics. Despite the uniqueness of the Blue Mountains, a comparative analysis has been performed against the following local government areas:

Group 7 LGAs:	**Group 6 LGAs:**	**Other LGAs:**
Blue Mountains	Wollondilly	Oberon
The Hills	Hawkesbury	Coffs Harbour
Hornsby	Camden	Shoalhaven
Gosford		Lithgow
Penrith		
Liverpool		
Wyong		
Campbelltown		

The comparative study on capacity to pay looked at relevant socio-economic indicators, and Blue Mountains rating position in comparison to others. Additionally, the analysis also compared these results against some key factors in the Office of Local Government Comparative Reporting report 2011-12 that influence the cost of service delivery. The following summarises: Capacity to pay and Rating competitiveness.

Capacity to pay

The comparative council study concludes that Blue Mountains ratepayers have the capacity to pay higher rates based on the following rationale:

Table 2-15 Evidence of capacity to pay

Evidence of capacity to pay	BM LGA is among the top 20% of least disadvantaged LGA's according to the SEIFA IRSD ranking	Lower unemployment rate (4.9%) in comparison to State, National, Greater Sydney and Rest of NSW averages	Weekly household income ($1270) is above the NSW ($1237) and national ($1234) average
	Average land values are lower than that of neighbouring Hawkesbury ($305,124), which has similar socio-economic characteristics	Mortgage stress is equivalent to the NSW average (10.5%), but much lower than other Sydney Metropolitan councils	Low rental stress (8.4%) compared to NSW average (11.6%)
	Completed rating reform has provided a fairer rating system	Whilst the proportion of household income spent on rates by Blue Mountains ratepayers is relatively high (1.93%), it is less than other council areas who have SEIFA index of disadvantage greater than ours	Very high level of rate recovery and Very low number of financial hardship applications

Rating Competiveness

The analysis of comparable LGAs highlights that current rates are competitive with other councils and that ratepayers are not experiencing significant levels of hardship in relation to rate payments. The following table summarises the findings of the analysis of comparable LGAs.

Table 2-16 Rating competitiveness

Rating competitiveness	Residential	The average Residential rate ($1272) is on par with other councils of similar geographic and socio-economic characteristics (lower than Camden $1291 & Wollondilly $1376 but higher than Hawkesbury ($1073)
	Business	The business rate ($3071) is higher than Wollondilly ($2092), and Hawkesbury ($1906) which are in the Sydney metropolitan area.
		The average business rate is much lower than many other areas e.g. Penrith ($6,773) Camden ($4,599) and Wyong ($3,491)
	Farmland	The average Farmland rate ($2,021) is lower than Sydney Metropolitan regional areas of Hawkesbury ($2,321), Wollondilly ($2,489), Camden ($2,768) and competitive with other areas ($2,378 average).
		Number of farmland assessments in Blue Mountains = 140

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3: Long Term Financial Plan 2014-2024

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3.1 Introduction

This *Long Term Financial Plan* (LTFP) outlines the Council's:

- Current financial position and financial performance ***(Section 3.3 –** Current financial position)*
- Commitment to financial sustainability and key factors that will drive the achievement of financial targets ***(Section 3.4 –** A Council committed to financial sustainability)*
- Long-term financial projections based on three alternative financial scenarios and their impact on rates and service expenditure ***(Section 3.5** – Development of options for Resourcing Our Future)*
- Projected financial performance of each financial scenario based on industry benchmarks ***(Section 3.6** – Measuring financial sustainability)*
- Key planning assumptions used in the development of the three financial scenarios ***(Section 3.7** – Key planning assumptions, revenue and expenditure)*
- Financial plan risks ***(Section 3.8)*** and financial planning conclusions ***(Section 3.9)***

3.2 Executive Summary

The *Long Term Financial Plan* (LTFP) establishes the framework for sound financial decisions, as well as being a financial modelling tool that:

- Assesses revenue building capacity to resource the implementation of our Community Strategic Plan - *Sustainable Blue Mountains 2025*
- Establishes the Council's transparency and accountability to the community in managing the City's finances
- Provides an opportunity for early identification of financial issues and any likely impacts in the longer term
- Confirms that the Council can be financially sustainable in the longer term

Like most NSW councils, we continue to face increasing pressures on our financial sustainability and on our ability to provide our community with the current levels of services and facilities within available funding. These pressures are a result of costs rising faster than the allowable increase in rating revenue, cost shifting and funding cuts from other levels of government and the financial and risk management challenges arising from ageing infrastructure.

To ensure we achieve financial sustainability into the future a review of the *LTFP* occurs each year to confirm the Council's financial management strategies are meeting the needs of the City.

The *LTFP*'s strategic approach is underpinned by the *Six Strategies for Financial Sustainability* that were adopted by the Council in 2013. These financial strategies are:

- Strategy 1: Avoiding shocks
- Strategy 2: Balancing the budget
- Strategy 3: Managing borrowings responsibly
- Strategy 4: Increasing income
- Strategy 5: Reviewing and adjusting service levels
- Strategy 6: Increasing advocacy and partnerships

These strategies ensure that:

- We maintain sufficient cash reserves to meet our short term working capital requirements
- We can achieve, within available funding, our *Asset Management Strategy* and *Asset Works Program*, including required renewal and maintenance of assets at agreed affordable levels of service
- We manage risks responsibly so that we fulfil our custodian role
- We deliver the best possible range of value for money services to meet community needs within available funding

The strategic directions in this revised Plan involve the implementation of all six strategies. Three financial scenarios are provided, based on the three rating options which were presented to the community in 2014 for consideration:

Financial Scenario 1 based on **Rating Option 1**

Reinstates the existing Environment Levy in 2015/2016 on a permanent basis and includes special rate variation annual increases of 6.6% in 2015/2016, followed by three increases of 9.6% from 2016/2017 to 2018/2019 (i.e. A special variation rate increase of 40.4% over four years including 3% annual rate peg and the 3.6% existing Environment Levy). This raises an additional $98.5M by 2023/2024. Under this Option, service levels are improved, with the proportion of built assets in poor condition moving from 21% to 17% by 2024 and the current capacity of the Council to protect and restore the natural environment being retained.

Financial Scenario 2 based on **Rating Option 2**

Reinstates the existing Environment Levy in 2015/2016 on a permanent basis and includes special rate variation annual increases of 6.6% in 2015/2016, followed by three increases of 7.4% from 2016/2017 to 2018/2019 (i.e. A special variation rate increase of 32.1% over four years including 3% rate peg and the 3.6% existing Environment Levy). This raises an additional $70.3M by 2023/2024. Under this Option, service levels are maintained with the proportion of built assets in poor condition remaining at 21% by 2024 and the current capacity of the Council to protect and restore the natural environment being retained.

Financial Scenario 3 based on **Rating Option 3**

Discontinues the existing Environment Levy when it expires in June 2015, resulting in a reduction in rating revenue of $17.0M by 2023/2024. Rates increase by rate peg only, estimated at 3% per annum. Under this Option, there is a significant reduction in service levels with deterioration in the Council's built assets from the current 21% to 37% in poor condition by 2024 and significantly reduced capacity to protect and restore the natural environment (i.e. Rates increase of 12.6% over four years).

Financial Scenarios 1 and 2, which involve special rate increases will, to varying degrees, reset our long-term operations to positions that better deliver the community's priorities as reflected in the Community Strategic Plan - *Sustainable Blue Mountains 2025*. These scenarios enable us to continue to provide the best possible services for our community while working toward financial sustainability into the future.

Projections under Financial Scenario 3 indicate an unsustainable position, as even with considerable adjustments to the services provided by the Council, a significant operating deficit remains for the entire life of the *LTFP* and the proportion of Council's built assets in poor condition increase to 37% (currently 21%).

The Council has engaged with the community on all three Funding Options, as required by Independent Pricing and Regulatory Tribunal (IPART), before considering whether to apply for a special rate increase.

3.3 Current financial position

As confirmed by NSW Treasury Corporation (TCorp) and by the Council's Annual Financial Statements, the Council's financial results are sound, albeit with significant challenges each year in managing costs rising faster than available revenue. Revenue has increased over the past few years and our expenditure has been well managed. Our cash liquidity is sound and the majority of the financial performance measures are above benchmark. The critical issue is that the Council's asset renewal and maintenance requirements are significantly underfunded, which impacts our operating result including depreciation.

Put simply, the Council does not have the required level of revenue to meet expenditure requirements – without strong corrective measures, the financial sustainability of the Council will deteriorate significantly. The current financial position of the Council is summarised in *Table 3-1* Sources of Revenue and *Table 3.2* Areas of Council expenditure below.

Table 3-1 Sources of Council revenue 2012-2013 (Source: BMCC Audited Annual Financial Statements 2012/2013)

Revenue Source	% of Budget	$M
Rates & Annual Charges	59%	$56.1
User Charges & Fees	14%	$13.7
Interest on Investments	2%	$1.4
State Government Grants (operating)	3%	$3.2
State Government Grants (capital)	0%	$0.3
Federal Government Grants (operating)	11%	$10.4
Federal Government Grants (capital)	2%	1.7
Contributions (operating)	1%	1.3
Contributions (capital)	1%	1.2
Other Revenue	7%	6.6
Total Revenue (including capital)	**100%**	**$95.9**

Table 3-2 Areas of Council expenditure 2012-2013 (Source: BMCC Audited Annual Financial Statements 2012/2013)

Expenditure	% of Budget	$M
Employee Benefits & On-costs	44%	$43.4
Borrowing Costs	4%	$3.6
Materials & Contracts	22%	$21.2
Depreciation & Amortisation	17%	$16.2
Other Expenses	13%	$13.3

Table 3-3 Summary of financial statements as at 30 June 2013 (Source: BMCC Audited Annual Financial Statements 2012/2013)

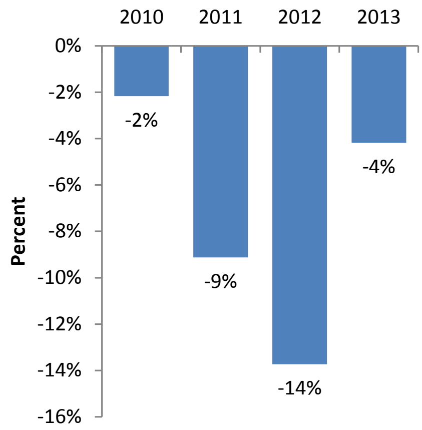
	$M
INCOME STATEMENT	
Total Income from Continuing Operations (including capital)	$95.9
Total Expenses from Continuing Operations	($97.7)
Net Operating Result for the year (including capital)	($1.8)
Net Operating Result excluding Capital Revenue	($5.0)
BALANCE SHEET	
Total Current Assets	$43.2
Total Non-Current Assets	$833.9
Total Current Liabilities	($23.6)
Total Non-Current Liabilities	($50.8)
Total Equity	**$802.7**
CASH FLOW	
Net Cash Provided Operating Activities	$17.5
Net Cash Used in Investing Activities	($41.4)
Net Cash Provided Financing Activities	$5.0
Net Decrease in Cash	**($18.9)**
Cash – Beginning of Year	$31.5
Cash End of the Year	**$12.6**
Investments on Hand – End of Year	$25.0
Total Cash, Cash Equivalents & Investments	**$37.6**

3.3.1 Current financial performance

We measure our financial performance against seven local government and NSW Treasury Corporation (TCorp) financial performance indicators. The following graphs present our performance to date against prior years' performance. While some of the results surpass the benchmark targets, a number demonstrate that we had, and will continue to have, significant challenges for managing long-term financial sustainability, unless strong action is not taken to address these challenges.

Figure 3.1 Financial performance indicators 2010-2013

1. OPERATING RESULT % (including depreciation, excluding capital revenue)



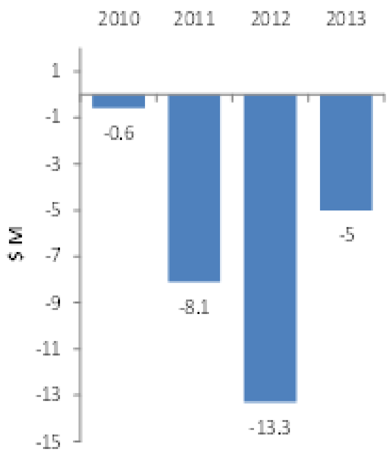
What is being measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation) measured as a percentage

Calculation: Total operating revenue (excluding capital revenue) less total operating expenses (including depreciation costs) divided by total operating revenue (excluding capital revenue)

Target: Within the range of 1% to -1%

Comment: Significant improvement has occurred in recent years due to a review of asset data, resulting in a more accurate depreciation calculation. However the target is not met which indicates an unsustainable financial position since revenue is not covering expenditure requirements, particularly funding for asset depreciation.

2. OPERATING RESULT $ (including depreciation, excluding capital revenue)



What is being measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation) measured in dollars

Calculation: Total operating revenue (excluding capital revenue) less total operating expenses (including depreciation costs)

Target: Within the range of $1 Million to -$1 Million

Comment: Significant improvement has occurred in recent years due to a review of asset data, resulting in a more accurate depreciation calculation. However the target is not met which indicates an unsustainable financial position since revenue is not covering expenditure requirements, particularly funding for asset depreciation.

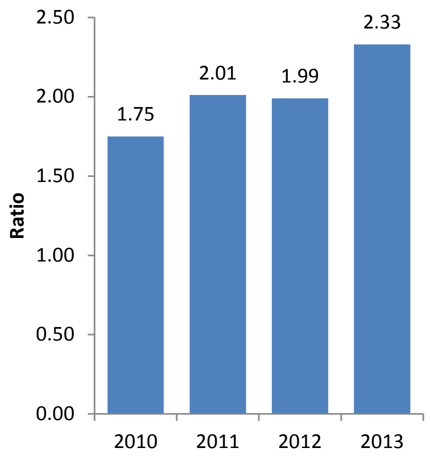
3. UNRESTRICTED CURRENT RATIO

What is being measured: The adequacy of the Council's unrestricted working capital cash funds to meet short term unrestricted financial obligations as they fall due

Calculation: Ratio of unrestricted current assets divided by unrestricted current liabilities.

Target: Greater than 1.5 : 1.0

Comment: The Council has adequate working capital funds to meet shorter term financial obligations as they fall due.



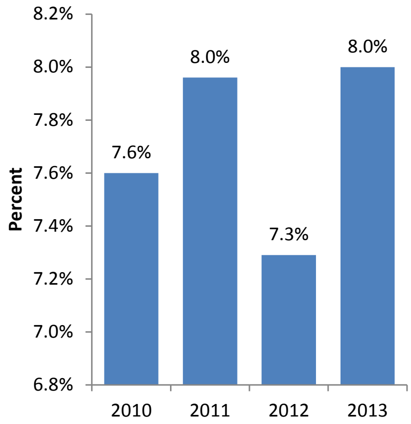
4. DEBT SERVICE RATIO

What is being measured: Percentage of the Council's total revenue used to service debt

Calculation: Total loan principal & interest payments divided by operating revenue

Target: Less than 10%

Comment: The Council has the ability to service its debt and is currently within the acceptable benchmark level. However any further debt needs to comply with the Council's Borrowing Policy and long-term strategic approach to debt particularly in respect of the Council's capacity to service additional debt costs.



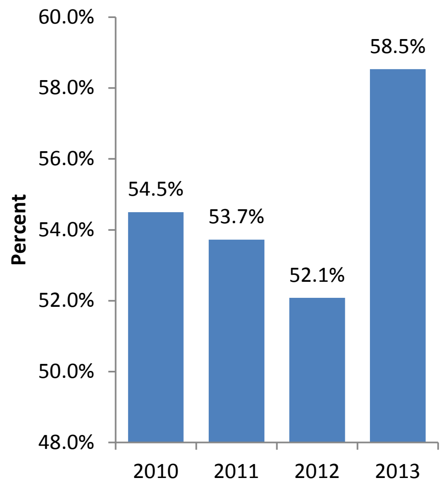
5. RATES & ANNUAL CHARGES COVERAGE RATIO

What is being measured: The Council's reliance on rates & annual charges revenue to fund operations and the security of the Council's total revenue

Calculation: Rates and annual charges as a percentage of operating revenue

Target: Greater than 40% = Sustainable

Comment: This result affords the Council a degree of certainty with regard to its principal revenue stream – Rates. Meeting and exceeding the target also reduces the risk of unplanned revenue shocks impacting service levels.



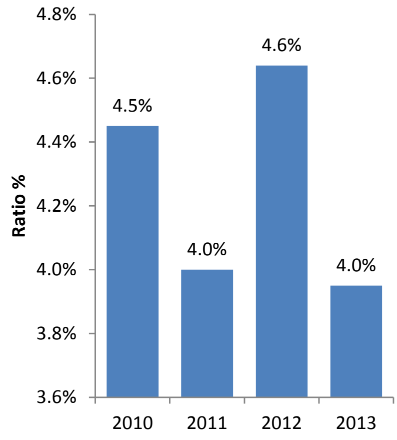
6. RATES, ANNUAL CHARGES, INTEREST & EXTRA CHARGES OUTSTANDING PERCENTAGE

What is being measured: The impact of uncollected rates and annual charges on the Council's liquidity and the adequacy of debt recovery efforts

Calculation: Outstanding rates and annual charges as a percentage of collectible rates and annual charges

Target: Less than 5%

Comment: The target is currently being met and this result reflects that efficient credit management practices are being applied. It also indicates that a very high proportion of residents are managing to pay their rates on time and that residents have capacity to pay rates.



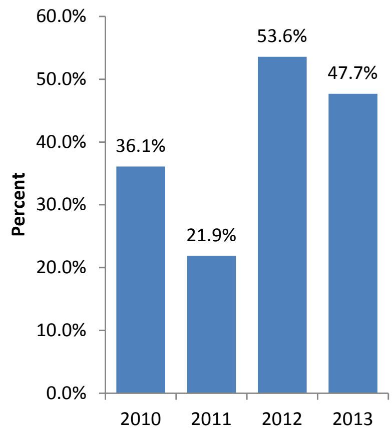
7. BUILDING & INFRASTRUCTURE RENEWALS RATIO

What is being measured: The Council's ability to fund the renewal of road, drainage and building assets relative to the amount of funding projected to be required from depreciation expenditure requirements

Calculation: Road, drainage and building asset renewal expenditure divided by depreciation expenditure

Target: Equal to 100% = Good; Less than 100% = Unsustainable

Comment: This ratio indicates the Council does not have the ability to fund the renewal of its road, drainage and building assets. This is evidenced in the *Asset Management Strategy* which estimates that approximately 21% of the Council's almost $1 billion worth of built assets are in poor condition. Without corrective action this is projected to grow to 37% by 2023/2024.



3.3.2 Key constraints

It is important to note that while long-term financial sustainability is the Council's goal, like most council's in NSW, this will be difficult to achieve in the current environment due to:

- The Council not being able to fund current built asset life cycle cost at current levels of service and available revenue. Which means the condition of assets will continue to deteriorate in the short term unless there is, on average, an additional $23.8M spent on assets each year for the next 10 years
- The scale of the shortfalls in infrastructure maintenance funding and asset renewal funding for has already led to some deterioration in asset condition.
- The unique environmental, geographic, geomorphic, heritage and urban development characteristics of the City (as discussed in *Part 2: City Context* of the *Resourcing Strategy*), which effectively results in:
  - Limited opportunity for urban expansion and, therefore, for new rating revenues
  - Costly management of world heritage and tourism

- Demand for increasing service levels, in line with resident expectations and access to facilities/services
- Costly management of bushfire risks
- Large asset portfolio due to number and spread of settlements
- Low economies of scale in service delivery costs across low density, fragmented areas

Australian and NSW Government fiscal policy changes are a major factor in reaching financial sustainability. Key Australian and NSW Government policy issues that the *LTFP* must take into consideration are:

- Constrained rate revenue; for 35 years the NSW Government has imposed rate pegging, which limits the amount by which councils can increase their rate income in any given year, irrespective of the amount by which costs have actually increased. As a result, NSW councils have the lowest rates in Australia.

Table 3-4 NSW Rate Peg variations since 2005/2006

2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
3.5%	3.6%	3.4%	3.2%	3.5%	2.6%	2.8%	3.6%	3.4%	2.3%

- The impact of local government collecting approximately 3% of taxation revenue, but being responsible for 36% of non-financial assets held by all spheres of government
- Significant additional cost burdens from the continual shifting of responsibilities for service provision from the Australian and NSW Governments to local government, without corresponding funding. For example, in 2010-2011 the impact of cost shifting on Blue Mountains Council was $6.9 million in additional expenditure requirements

Long-term financial sustainability for the Council can be achieved through successfully implementing the all Council endorsed *Six Strategies for Financial Sustainability*. However, 'where we need to be' will be informed by, and contingent upon, the input received from the community engagement on rating funding options within each of the financial scenarios. This engagement with the community will identify the preferred option of either increasing the revenue available to maintain and/or improve our infrastructure shortfall or, alternatively, reduce the revenue available and reduce the existing levels of service.

Australian and NSW Government Policy influences on the Council's long-term financial position

Australian Government: Family Day Care

Changes to the Australian Government, Department of Education *Community Support Programme* (CSP) were announced in the 2014/15 Australian Government Budget. As at 30 June 2015 the Department of Education (DoE) will terminate all CSP contracts with family day care approved services. This includes services receiving both Operational Support Funding and Sustainability.

Assistance. Services that currently are eligible for CSP funding will continue to receive funding until 30 June 2015. All Services must make a new application for Operational Support Funding under the CSP and be assessed under the new eligibility criteria. Successful applications for Operational Support Funding will be capped at $250,000 and funding agreements offered to services for 2015/16 will be for one year only.

Under the new criteria it will be very difficult for the Council's Family Day Care service to meet the eligibility criteria. There are limited options available to compensate for this loss forcing fees to parents to increase. The CSP funding for Blue Mountains Family Day Care was in the order of $210,000 per annum. The Blue Mountains Family Day Care service is currently under review.

Australian Government: Natural Disaster Relief and Recovery Funding

The Australian Government released a Productivity Commission draft report on Natural Disaster Funding Arrangements in September 2014. The recommendations of the Productivity Commission are of extreme importance to the Blue Mountains given its high exposure to natural disaster events; such as bushfire, snow and storms. The draft report proposes to reduce post-disaster support to encourage state and local governments to invest in mitigation or insurance. The Report broadly implies substantial cost-shifting to local government and greater fiscal responsibility in managing natural disaster events by landowners and local government. The full implications to local government and landowners is not made clear; however, the intention to constrain natural disaster funding at the Australian Government level is made quite clear by the Productivity Commission comment:

> "Raising the small disaster criterion and the reimbursement threshold would mean that Australian Government involvement is triggered only when states are faced with extraordinary fiscal impacts from natural disasters."

IPART also submitted to the Productivity Commission:

> "We agree with the Productivity Commission's assessment of the NSW Fire Services Levy, noting the distortionary effects it has on insurance prices and affordability. This was discussed in our Review of State Taxation (June 2008) where we recommended removing the Fire Services Levy and replacing it with a corresponding increase in local government contributions and rates. This would increase the contribution from all property owners via local government rates".

The current funding process works so that when a severe natural disaster occurs, causing damage to 'essential assets' in excess of $240,000 (including roads, bridges and Crown lands), the NSW Treasurer or his delegate may issue a Natural Disaster Declaration. Under these circumstances the Commonwealth and NSW Governments provide financial assistance to local government through Natural Disaster Relief and Recovery Arrangements (NDRRA) for emergency work and restoration of damaged council assets. A salient point is that whilst these current arrangements exist, many events do not trigger the funding threshold. In addition changes to the eligibility criteria for the Commonwealth/State Natural Disaster Relief and Recovery Arrangements were made 23 October 2013 that withdraw the ability to claim financial assistance for restoration of public assets at reserves, sporting fields, recreational facilities, including play equipment. Therefore, damage to these asset classes as a result of a natural disaster must be funded by local government or other non-government sources or, if considered to be essential to restoring the social fabric of a community, assistance may be granted through the NDRRA Community Recovery Fund.

NSW Government: Waste Levy

$ 2.9m in 2014/15 required for the NSW Government's Waste Levy which is a measure to deter waste but Council operates own facilities and already has a deterrent to extend life of facilities

In summary, ongoing Australian and NSW Government policy changes in the area natural disaster management may have dramatic consequences to the Council's ability to fund from its existing constrained revenues the additional service budget requirements for natural disaster mitigation and recovery. The outcomes of the Productivity Commission's draft recommendations may directly influence the Council's financial ability to 'avoid shocks' during natural disasters, resulting in decline or disruption to other services.

3.4 A Council committed to financial sustainability

To address our financial challenges, the Council has developed a 10-year plan, which will strengthen our financial capabilities and ensure we:

- Resource the continued implementation of *Sustainable Blue Mountains 2025*
- Fund future asset maintenance and renewal requirements in accordance with the level identified as affordable by the *Asset Management Strategy* and the *Asset Management Plans*
- Continue to balance our annual cash budget
- Improve our annual operating result

This plan involves the implementation of the S*ix Financial Strategies for Financial Sustainability*. When implemented together, these strategies will ensure that the Blue Mountains City Council is continually working to improve its financial position. These strategies apply equally to each of the three financial scenarios detailed in this plan.

The financial strategies provide direction and guidance for Councillors, the Council's management and the community on how the Council will achieve improved long-term financial sustainability.

The Council will only be able to achieve such a goal through the implementation of all of the strategies.

In considering the likely revenue that will be available to meet these objectives and in developing rating funding options, the Council has considered affordability of rates by reviewing:

- The current level of rates and charges
- The socio-economic profile of our community
- The potential to reduce the reliance on rates through increased revenues from other sources e.g. fees and charges, grants

Figure 3-2 BMCC's Six Financial Strategies for Financial Sustainability

- The potential growth or decline in rating revenue from changing demographics and industry makeup
- The possible need to increase reliance on rating due to a reduction in revenues from other sources such as a decline in grants or subsidies
- The projected impact of the rate peg
- Opportunities for a further special variation to rates
- The Council's current rating policy and likely changes to that policy in the future.

Further, the community engagement in August/September 2014 will provide information on the community's willingness to pay additional rates.

3.4.1 BMCC's Six Financial Strategies for Financial Sustainability

Strategy 1 – Avoid shocks

The Council proactively implements financial planning to ensure we live responsibly within our means, manage risks and prioritise resources to achieve best outcomes.

The *LTFP* assesses the Council's revenue capacity and projects future costs. This strategy of avoiding shocks will be achieved by the Council proactively using the *LTFP* to manage and smooth projected increases in costs or decreases in revenue. This provides the Council with an opportunity for early identification of financial issues and longer-term impacts. It also helps the Council make strategic decisions based on these issues and impacts – with the aim of minimising unexpected events.

By managing and making appropriate adjustments for increases in costs or decreases in revenue, this strategy positions the City to better withstand costly unexpected events and to continue to deliver quality services that meet community needs. Examples of unexpected events include the devastating October 2013 bushfires and the recent $2.9 million reduction in Australian Government Financial Assistance Grant funding to the Blue Mountains over the next four years.

Strategy 2 - Balance the budget

A. Annual cash budget

This strategy involves balancing the Council's cash budget each year, and over 10 years balancing the Operating Result (including depreciation and excluding capital grants) through a combination of strategies, including reducing debt, increasing revenue and adjusting of services as outlined below, as well as achieving operating savings through continuous business improvement initiatives.

Given that costs are rising in real terms by 2% more than income, the Council is taking action to balance its budget each year through a continued commitment to cost containment and business efficiency. Cost containment also includes intentional actions to reduce the cost of labour and materials and review servicing requirements.

The Council has been striving for continuous improvement to enable it to balance its annual operating budget over the longer term. It has a rolling program of service reviews and enforces budget containment strategies each year to enable the cash budget to be balanced (i.e. expenditure equals available income).

Some notable efficiency and revenue achievements are listed in *Table 3-5* below.

Table 3-5 Savings, efficiencies, revenues and productivity achievements

Current (past) savings $13 million over the past eight years from direct efforts to reduce costs.	Savings are those which occur from direct action taken to reduce costs of labour and/or materials. – Other operating costs - $1.0M – Contract management and insurance -$3.5M – Vehicle and purchases/management - $2.5M – Business and process Improvements - $0.4M – Materials management practices - $0.4M – Labour and consultancy costs - $4.0M – Waste initiatives -$2.0M
Projected savings $3.5 over the next five years	$3 million of the above past savings are likely to continue on an annual basis, that is, the direct action taken to reduce costs has an ongoing financial benefit. This is because those recurring annual costs would remain today if the action to reduce costs did not occur. – Savings in interest payments - $3.0M – Contract savings for utilities, hardware $0.5M
Efficiencies A number of initiatives have streamlined procedures and improved customer satisfaction.	– The contribution of Bushcare volunteers in conservation activities is estimated to save the Council $0.3M per annum in natural asset maintenance costs. – Implementation of initiatives to reduce energy costs; many projects achieved through grant programs. – Review of shoulder slashing work practices and equipment has resulted in more efficient use of workforce, estimated to save the Council $0.3M per annum – The implementation of split shift facility cleaning in town centres has improved service quality and reduced security contract costs. – The replacement of the oval mower plant with one that has a larger mowing deck has reduced the workforce requirement for parks mowing. – Implementation of self-checkout at Katoomba Library. – A number of system and process changes to improve service turnaround of planning and regulatory matters. – New e-lodgement and tracking system for customer service requests – Developed and published guides to development application processing resulting in 17% reduction in the number of rejected applications, producing a significant saving to clients. – The introduction of emailed rate notices to ratepayers, and Bpay payment option for debtors has improved cash flow and customer service. – Commencement of a continuous improvement project team to manage the achievement of a

	balanced annual budget has improved corporate information, systems, and decision-making. – Commenced a values led leadership development program across whole of the Council to align organisational behaviour to strategic workforce goals.
Grant Revenues	– Since 2009 the Council has raised $40 million in additional revenue for specific purpose grants. – A further $47 million is received from FAGs and other contributions
Productivity	– The *Workforce Management Strategy* monitors a number of workforce productivity indicators; such as, employee retention, works compensation costs and leadership (see *Part 5 of the Resourcing Strategy* for details), which have shown significant improvement over recent years.

Without these savings, the Council would have not been able to balance its cash budget for these years.

B. Annual Operating Result (including depreciation, excluding capital grants)

The Council's strategy is to balance the annual operating result within 10 years (including depreciation, excluding capital grants) to ensure it lives within its means. Once the operating result is balanced, the Council will start to build operating surpluses. This will be achieved by:

- Continuing to review and improve the accuracy of asset depreciation projections, including useful lives and asset revaluations. Being the key driver of the operating deficit, it is important that depreciation accurately represents the level of funding required to maintain agreed service levels
- Implementing the strategies outlined below including reducing debt, increasing revenue, reviewing and adjusting services

Balancing the annual operating result will allow the Council to reduce the annual deterioration of its assets, and any operating surpluses will then be available to address future backlogs in asset maintenance and renewal.

Strategy 3 - Manage borrowings responsibly

While the Council's debt service financial indicator (i.e. the degree of revenue from continued operations committed to the repayment of debt) is within the industry benchmark, our financial planning has identified that we have reached our capacity to incur debt. That is, our available revenue is insufficient to support any further loan interest and principal repayments. As a result, this strategy focuses on minimising future borrowings and reducing existing debt.

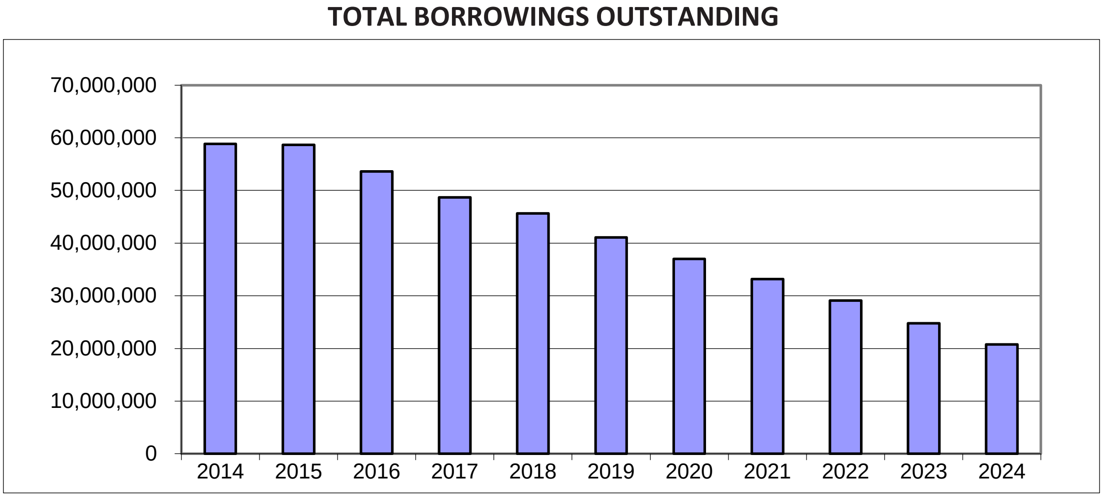
The Council's Long Term Financial Planning has included reviewing the Council's loan borrowings to better support the City's requirements and financial sustainability. The implementation of this strategy has included ceasing new loan borrowings subject to annual reviews of the financial capacity of the Council unless:

- The proposed new borrowing is supported by a comprehensive business case and resolved by the Council
- The cost of debt is able to be funded from sufficient income or cost savings generated by the project
- Financially subsidised loan funding is available and is resolved by Council to be used

In addition, the Council has committed to reducing its debt position by ceasing the practice of borrowing $2.3 million each year for non-major asset works, as well as directing any surplus cash funds to reducing borrowings wherever it is effective to do so. The *LTFP* also recommends reducing existing debt liabilities by reviewing existing interest rate terms and conditions and renegotiating these through organisations like Western Sydney Regional Organisation of Councils (WSROC). This would further reduce the projected outstanding loan balance.

As shown in *Figure 3-3*, this strategy is projected to bring the borrowing balance down from $59M in 2013-2014 to $21M in 2023-2024 and further to $16.8M in 2024-2025.

Figure 3-3 Total borrowings outstanding 2014-2024



Note: includes current planned borrowings

To support the implementation of this strategy the Council has developed a Borrowing Policy (outlined in the Councils Delivery Program 2013-2017) that ensures we manage the cost of debt responsibly, taking into account principles of inter-generational equity and the financial capacity of the Council.

After a period of consolidation of approximately 10 years, the Council will be once again in a position to reconsider further borrowings. The Council may then decide to borrow additional funds, which it can use to:

- Address any infrastructure failures/risks from the *Asset Management Strategy/Plans* if required; and/or
- Asset renewal if our long-term planning determines this as appropriate and financially responsible. Such future borrowings will only be undertaken for one-off major projects and the period of debt repayment will not exceed the period over which the project benefits are received or the life of the asset – whichever is the lesser

Such borrowings, if used to fund asset renewal, will assist the Council to bring depreciation under control and therefore could improve the Council's operating result.

Strategy 4 - Increase income

For long-term financial sustainability and funding of the infrastructure shortfall (see further *Part 4 of the Resourcing Strategy: Section 4.5, Funding base for operations, maintenance and renewal*), it is essential that the Council increase its income.

For every dollar residents pay in rates, the Council at least matches it with revenue from sources such as grants, commercial activities e.g. Caravan Parks and Visitor Information Centres) and from fees and charges. Over the past five years, the Council's revenue base has included over $87 million in externally acquired grant funding for the community.

Initiatives for increasing income range from seeking external grants, setting appropriate levels for fees and charges, achieving sound financial returns from Council's commercial activities (for example commercial property and caravan parks) and engaging the community on possible rate increases to support required levels of service.

While opportunities to increase income are limited due to rate pegging and limited growth opportunities, other options include:

A. Applications to IPART for a Special Variation to rates

Rates are the most reliable source of any council's income. The Office of Local Government notes that applications to IPART to vary rates above the approved annual rate peg are a valid solution to financial sustainability, because special variations to rates are:

> *….an important means of providing additional funding to councils in delivering services and infrastructure that the community has requested and the council is unable to fund within its existing revenue."*

Each year, approximately 25 councils in NSW apply for a special variation, the majority seeking additional funding to address infrastructure backlogs.

Strategy 4 includes implementing a two-staged approach to increasing revenue through special rate variations phased in gradually over time, and taking into account community capacity and willingness to pay increased rates to achieve desired levels of service provision.

The Council developed a two-staged approach in order to:

- Minimise the impacts of the reform of its rating structure on ratepayers
- Coincide with the expiry of the existing 10 year Environment Levy
- Better align better with the Council's planning cycle, and
- Phasing the rate increases over a period of four years to minimise the impact of increased rates on ratepayers

This two-staged Strategy was previously publically exhibited (with no adverse community response) and adopted for implementation in June 2013 as part of the 2013-2023 Resourcing Strategy. In summary:

Stage 1 – Renewal of existing s508(2) Special Variation for Infrastructure

Current revenue projections within this *LTFP* include the additional income being raised from the renewal of an existing special variation, which was approved by IPART in June 2013. This variation replaced the program of annually borrowing at least $2.3M to fund asset maintenance and renewal works and by 2023 it will raise $23M in revenue. Stage 1 of this approach was achieved in 2013 with community endorsement for continuing an existing special variation to rates. As detailed further below, the Council is now seeking to implement Stage 2 including community engagement on three alternative options for Resourcing our Future.

Stage 2 – Further Application to IPART

In summary, the second stage of this approach includes engaging the community on a possible application in 2015 incorporating:

- Continuation of the existing s508(2) special variation for the Environment – Due to expire on 30 June 2015, the *LTFP* includes the continuation of this variation known as the Environment Levy from 2015-2016 on an ongoing basis
- Additional variations - Under Rating Options 1 and 2 a special rate variation is proposed in 2015/2016 to improve the Council's financial position, address the critical funding shortfall for renewal and maintenance of the City's $1 billion worth of built assets (including roads, footpaths, storm water drainage, emergency management infrastructure, community and recreational facilities such as parks, ovals, pools, libraries and child care centres) and enable continuation of an existing Environment Levy (due to expire in June 2015) that has been funding the protection and restoration of approximately 10,000 ha of bushland and water ways

Stage 2 is detailed further in *Section 3.5 Rating Options for Resourcing our Future*.

B. Revenue strategy and other revenue initiatives

While it is prudent that the Council maximises all current and future revenue streams to fulfil the community needs, this must be balanced against socio-economic realities and principles of fairness and affordability. The *LTFP* proposes that a review of the Council's existing revenue strategies be undertaken to develop financial strategies that articulate the goals and actions of each particular revenue stream to ensure that revenue is maximised in an equitable as well as a business-like manner. Such a review will incorporate (but not be limited to) the current and future income streams of:

- Rates and levies
- Annual charges such as domestic waste management charges
- Fees and charges
- Property Disposal and Investment Program
- Commercial activities income
- Operational and capital grant income
- Interest income
- Other revenue generating initiatives

The Council has given a major focus to achieving other sources of revenue to support needed community infrastructure projects. Some examples where the Council has been successful in obtaining significant additional external revenue funding include:

• Blue Mountains Theatre and Community Hub	$9.5M
• Blue Mountains Business Park in Lawson	$3.5M
• Blue Mountains Cultural Centre, New Katoomba Library & Civic Centre	$5.0M
• Lawson Town Centre	$5.9M

- NSW Building Partnership Infrastructure Funding, over $2.5M

Any review of the Council's revenue strategies will require a consideration of any impacts on the community and will also involve engagement with the community.

Strategy 5 – Review and adjust service levels in consultation with community

This strategy involves the Council implementing ongoing and targeted service reviews to ensure best value service provision to the community.

The "*Blue Mountains City Council Service Framework – Guidelines for Achieving Best Value Service that Meet Community Needs*" adopted in June 2013, outlines key service provision principles and guidelines for the planning and review of Council services. The framework aims to ensure that within available resources the Council provides the best range of quality "value for money" services that meet the needs of the most number of residents and visitors to the City.

Given the Council's financial challenges, it is important that there are processes in place that ensure available resources are effectively and transparently targeted in consultation with the community, and in a way that best addresses identified risks and assessed needs.

Examples of service areas reviewed include the review of the bulky waste collection service resulting in a shift to a more responsive booked service, review of the Council's Caravan Parks resulting in increased revenue and the Sealing of Unsealed Roads Program resulting in significant ongoing cost savings and improved service delivery.

Strategy 6 – Increase advocacy and partnerships

This strategy involves advocating to other levels of government for a fair share of funding and reduced cost shifting, and building partnerships with others to achieve positive outcomes for the Blue Mountains. This is particularly important given the characteristics and challenges of the Blue Mountains such as its location adjacent to the Greater Blue Mountains World Heritage Area and its significance as a major Australian tourist destination.

Such advocacy can be achieved through local members, the Local Government Association, council partnerships, such as WSROC, and through submissions to the various local government inquiries. The potential for additional revenue from this strategy is quite significant. Examples of the Council's previous success with this include the $9.5M Australian Government grant for Springwood Cultural Facilities Upgrade and the Blue Mountains Cultural Centre public/private partnership.

A recent achievement of Strategy 6 also includes the Council's work following the October 2013 bush fire disaster where the Council's advocacy ensured safe and appropriate disposal of fire impacted waste outside the City and successfully achieved $1.8 million in grant funding from the State Government to support recovery. The Council actively worked in partnership with NSW Government, NSW RFS and a range of agencies and organisations during the response and now in the recovery phase. Developing partnerships with other organisations and with the community and business sectors is also a key focus of this strategy. Some examples of where the Council has assisted others in advocacy and partnership initiatives include:

- Blue Mountains Economic Enterprise
- The Stronger Families Alliance
- Gully Cooperative Agreement
- Reconnecting to Country project

- Domestic Squalor Information Package & Blue Mountains Homelessness Forum
- Bicentenary of the Crossing event
- Emergency Management services with SES and RFS

3.5 Development of options for *Resourcing Our Future*

3.5.1 Three financial scenarios

The *LTFP* process has developed three alternative financial scenarios, which include three rating funding options and various revenue and expenditure assumptions over the 10 years of the plan. The three scenarios are:

- ***Financial Scenario 1*** – Service Levels Improved (includes Rating Option 1)
- ***Financial Scenario 2*** – Service Levels Maintained (includes Rating Option 2)
- ***Financial Scenario 3*** – Service Levels Reduced (includes Rating Option 3)

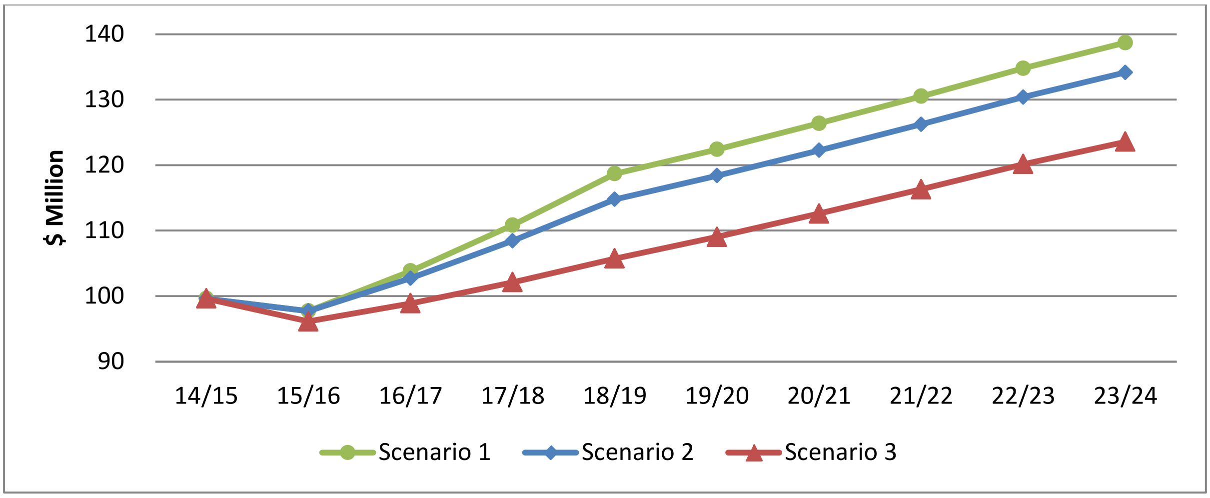
The rationale for these scenarios was a longer-term consideration of all of the following:

- Extent of our financial challenges, particularly costs rising faster than the Council's ability to increase revenue
- Level of, and risks around, the built and natural asset infrastructure backlogs
- Our ability to provide the , services our community needs and expects based on existing revenue streams, and
- The community's capacity to pay as evidenced by the City's SEIFA IRSD index and other socio-economic indicators

Projected revenue and expenditure – three scenarios

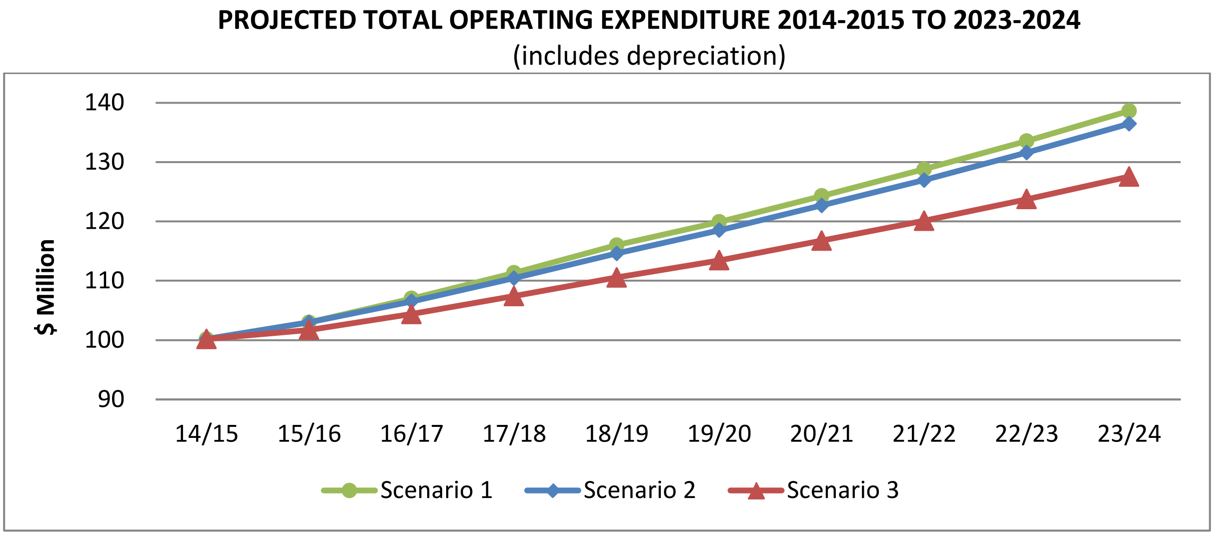
Illustrated below is the impact of the revenue and expenditure assumptions on the Council's total projected revenue (*Figure 3-4)* and operating expenditure (*Figure 3-5)* over the 10-year planning period.

PROJECTED TOTAL REVENUE 2014-2015 TO 2023-2024
(including capital revenue)



($Million)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	100	98	104	111	119	122	126	131	135	139
Scenario 2	100	98	103	108	115	118	122	126	130	134
Scenario 3	100	96	99	102	106	109	113	116	120	124

Figure 3-4 Projected total revenue 2014-2015 to 2023-2024



($ Million)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	100	103	107	111	116	120	124	129	134	139
Scenario 2	100	103	107	110	115	118	123	127	132	136
Scenario 3	100	102	104	107	111	113	117	120	124	128

Figure 3-5 Projected total operating expenditure 2014-2015 to 2023-2024

Effect of scenarios on long-term financial position

Table 3-6 shows the effect of the various financial scenarios on the Council's overall long-term financial position.

Table 3-6 Impact of options on key financial performance measures

Measure	Financial Scenario 1	Financial Scenario 2	Financial Scenario 3
Operating Balance: Whether Council has sufficient revenue to cover expenditure requirements (including depreciation) *Benchmark: should be +/ - $1M*	√ By 2023/24 Operating Balance is within acceptable benchmark at deficit of -$672K	X By 2023/24 Operating Balance is NOT within acceptable benchmark being a deficit of - $3M	X By 2023/24 Operating Balance is NOT within acceptable benchmark being a deficit of - $5M
Assets Renewal Ratio: Council's ability to renew ALL built assets relative to the rate at which they are depreciating. *Benchmark: should be 100%*	50% Under this measure by 2023/24 the Council is **only meeting 50%** of its built asset funding requirement	40% Under this measure by 2023/24 the Council is **only meeting 40%** of its built asset funding requirement	33% Under this measure by 2023/24 the Council is **only meeting 33%** of its built asset funding requirement
Building & infrastructure Renewal Ratio: The Council's ability to fund renewal of roads, drainage and building assets to the rate at which they are depreciating. *Benchmark: should be 100%*	54% Under this measure by 2023/24 the Council is **only meeting 54%** of its building & infrustructure renewal requirement	46% Under this measure by 2023/24 the Council is **only meeting 46%** of its building & infrustructure renewal requirement	33% Under this measure by 2023/24 the Council is **only meeting 33%** of its building & infrustructure renewal requirement
Debt Service Ratio: The percentage of Council revenue used to service debt *Benchmark: should be below 10%*	√ By 2023/24 debt ratio is **4.2%**	√ By 2023/24 debt ratio is **4.4%**	√ By 2023/24 debt ratio is **4.8%**
Summary	**Significant improvement** ↑ in most key financial performance (particularly the Operating Result) measures with a need to continue addressing built asset funding shortfall	**Some improvement** ↑ with need to further improve Operating Result and address built asset funding shortfall	**Unsustainable financial position** ↓ with significant deterioration in built infrastructure

Rating impact and special levy expenditure areas

Table 3-7 Impact of rating options on average rates on A: Residential, B: Business and C: Farmland shows the annual and cumulative rating impact over the next four years.

It should be noted, that none of these funding options propose to fully address the infrastructure backlog as the level of funding required is likely to be beyond the capacity of our community to pay. The financial scenarios therefore offer the community the opportunity to determine the right balance between how much they wish to pay for services through rating, against the extent to which they wish the Council to implement its other financial strategies.

Table 3-7 Impact of rating options on average rates on A: Residential, B: Business and C: Farmland

A: IMPACT ON AVERAGE RESIDENTIAL RATES		2014/15	2015/16	2016/17	2017/18	2018/19	Total increase over 4 years	
OPTION 1: IMPROVING SERVICES	Annual rate	$1,272	$1,310	$1,436	$1,574	$1,725	$453	40.4%
	Annual increase		$38	$126	$138	$151		
OPTION 2: MAINTAINING SERVICES	Annual rate	$1,272	$1,310	$1,407	$1,511	$1,623	$351	32.1%
	Annual increase		$38	$97	$104	$112		
OPTION 3: REDUCING SERVICES (rate peg only)	Annual rate	$1,272	$1,266	$1,304	$1,343	$1,383	$111	12.6%
	Annual increase		-$6	$38	$39	$40		
B: IMPACT ON AVERAGE BUSINESS RATES		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total increase over 4 years**	
OPTION 1: IMPROVING SERVICES	Annual rate	$3,071	$3,163	$3,466	$3,799	$4,164	$1,093	40.4%
	Annual increase		$92	$303	$333	$365		
OPTION 2: MAINTAINING SERVICES	Annual rate	$3,071	$3,163	$3,397	$3,648	$3,918	$847	32.1%
	Annual increase		$92	$234	$251	$270		
OPTION 3: REDUCING SERVICES (rate peg only)	Annual rate	$3,071	$3,056	$3,147	$3,242	$3,339	$268	12.6%
	Annual increase		-$15	$91	$95	$97		
C: IMPACT ON AVERAGE FARMLAND RATES		**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total increase over 4 years**	
OPTION 1: IMPROVING SERVICES	Annual rate	$2,021	$2,081	$2,281	$2,500	$2,740	$719	40.4%
	Annual increase		$60	$200	$219	$240		
OPTION 2: MAINTAINING SERVICES	Annual rate	$2,021	$2,081	$2,235	$2,401	$2,578	$557	32.1%
	Annual increase		$60	$154	$166	$177		
OPTION 3: REDUCING SERVICES (rate peg only)	Annual rate	$2,021	$2,011	$2,071	$2,133	$2,197	$176	12.6%
	Annual increase		-$10	$60	$62	$64		

Table 3-8 describes how the additional rate revenue will be spent under Options 1 and 2 for the expenditure areas of built infrastructure, environment, emergency preparedness and response, and community and recreation. Please note that this allocation of additional revenue was based on an estimated rate peg of 3.0% for 2015/16.

Table 3-8 Proposed allocation of additional revenue - subject to annual review

	OPTION 1	OPTION 2
Built Infrastructure	**$47.3 million (over 4 years)**	**$33.0 million**
	Including $37.8 million for: • Renewal and maintenance of the sealed road network funding shortfalls • Road shoulder work required to prevent overall deterioration of roads and improved stormwater management • Stormwater management infrastructure gaps • Renewal of aging bridges • Footpath renewal priorities • Legislatively required bus stop disability access upgrades • Stormwater management infrastructure	*Including $24.9 million for:* As for Option 1 but **with $12.9 million less funding** for required: • Renewal and maintenance of sealed road network • Stormwater management infrastructure • Traffic facility renewal • Footpath renewal
	Including $9.5 million for: • Improving town centre maintenance regimes • Tree management • Town centre public domain infrastructure improvement programs • Improve building compliance • Public toilet upgrade in town centres • Building cleansing • Building maintenance and renewal • Information technology upgrades including disaster recovery systems	*Including $8.1 million for:* As for Option 1 but **with $1.4 million less funding** for required: • Public toilet upgrade in town centres • Building cleansing • Building renewals
Environment	**$22.5 million**	**$19.3 million**
	Including $11.7 million for: • Weed control • Restoration of water ways and water quality monitoring • Stormwater pollution control • Bushland restoration, Bushcare and Landcare programs • Wildlife habitat restoration and protection of rare and unique animal and plant species • Environmental education	*Including $11.4 million for:* As for Option 1 but **with $0.3 million less funding** for required: • High risk environmental program areas
Environment Cont'd	*Including $10.8 million for:* • Walking tracks and lookouts • Improvements to natural area visitor facilities	*Including $7.9 million for:* As for Option 1, but **with $2.9 million less funding** for required:

	OPTION 1	OPTION 2
		• High risk walking track and natural area visitor facility renewals • Walking track maintenance
Emergency Preparedness and Response	**$4.5 million for:**	**$2.0 million for:**
	• Disaster and emergency management planning • Bushfire impact preparedness and prevention - Asset Protection Zone high priority works • Improved cyclic maintenance of fire trails	As for Option 1, **but with $2.5 million less funding** for required: • High priority Asset Protection Zone works • Improved fire trail cyclic maintenance programs
Community & Recreation	**$24.2 million**	**$16.0 million**
	Including $9.4 million for: • Sporting facility operating costs • Priority areas for renewal of recreational sporting surfaces, equipment, buildings and toilets • Park Revitalisation Program	*Including $5.6 million for:* As for Option 1 **but with $3.8 million less funding** for required: – Renewal, maintenance and upgrade of parks, sports grounds and playing surfaces
	Including $5.0 million for: • Swimming pool renewal and infrastructure priorities	*Including $4.6 million for:* As for Option 1, **but with $0.4 million less funding for** required swimming pool renewal, and infrastructure priorities
	Including $9.8 million for: • Renewal, maintenance and operation of community facilities including libraries, community centres, halls, youth facilities, child care facilities, neighbourhood centres • Community development programs to improve social outcomes • Rehabilitation of cultural assets	*Including $5.8 million for:* As for Option 1, **but with $4.0 million less funding** for required: – Community facilities renewal and upgrade – Community development programs to improve social outcomes – Community building cleansing
Total	**$98.5 million**	**$70.3 million**

3.5.2 Overview of the three financial scenarios

Each of the financial scenarios are summarised below, including:

- an overview of the revenue and expenditure assumptions
- the impact on service levels
- key financial statements (Profit & Loss, Cash Flow and Balance Sheet)

Long Term Financial Plans are inherently uncertain as they contain a wide range of assumptions over an uncertain period of 10 years. The summaries that follow therefore also include a sensitivity analysis that tests key revenue and expenditure assumptions, which if inaccurate, could have moderate to significant impacts on the Council's *LTFP*.

FINANCIAL SCENARIO 1
(including Funding Option 1 – Services Levels Improved)

REVENUE ASSUMPTIONS

Under this scenario the Environment Levy is continued in 2015-2016 (6.6% rate increase including the estimated 3% rate peg) and there are three additional rates increases of 9.6% each (including 3% rate peg) - a cumulative rate increase of 40.4% over four years (including rate peg).

This is an additional $98.5M in revenue over the ten year term.

Current service levels are retained with targeted improvements in key areas, and there will be an improvement in the condition of built and natural assets.

Apart from the key rating revenue assumptions above, other assumptions include revenue increases in Contributions, Discretionary Fees and Other Revenue by 3%, Annual Charges by 5%, Financial Assistance Grant by 0% for the first 3 years and then by 4%, Special Purpose Grants by 1.5% and Regulatory Fees by 1%.

EXPENDITURE ASSUMPTIONS

Scenario 1 ($M) YR	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
Operating Expenditure (excl. Depreciation.)	84	87	91	95	100	104	109	113	118	123	**1,024**
Capital Expenditure	26	9	9	15	16	16	16	16	16	16	**155**
***LTFP* Total Expenditure (excl. Depreciation.)**	**110**	**96**	**100**	**110**	**116**	**120**	**125**	**129**	**134**	**139**	**1,179**

Under Scenario 1 the proposed allocation of the additional $98.5 Million revenue obtained from the Special Rate Variation over 2015 to 2024 is expended as follows (subject to an annual review of Asset Management Plan priority risk assessment and best value resource allocation):

- Built Infrastructure $47.3 Million;
- Environment $22.5 Million;
- Emergency Preparedness and Response $4.5 Million; and
- Community & Recreation Facilities $24.2 Million

Option 1 proposes reinstating the existing Environment Levy and continuing it on a permanent basis to fund environment operational and capital works. According to the *Workforce Management Strategy (Part 5 Section 5.5)* the additional funding produced from this Option will require the need for additional 30 full time employees over the 10 year period. However, through natural attrition it is expected overall that there will be a neutral impact on the size of the workforce.

Additionally, under Option 1, the loan repayment savings from the Council's Strategy 3 are used to fund operations which allows the Council a parameter of 3% on operational cost which means service's will not need to be constrained to the same degree as under Options 2 and 3.

IMPACT ON SERVICE LEVELS

- We achieve better built infrastructure: better and safer roads, improved town centres, public toilets and buildings. Better footpaths, walking tracks and stormwater drainage
- We improve emergency preparedness and response: greater capacity to prepare for and respond to bushfires, better disaster planning, improved asset protection zones and fire-trail maintenance
- We continue to protect the environment: continue weed control, water quality monitoring, stormwater pollution control, restore bushland, and support Bushcare and Landcare programs.
- We improve services to community: better sporting fields, parks, pools, libraries and community facilities, improved capacity to support community, including those in need.

FINANCIAL STATEMENTS

Summary of Profit & Loss Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Revenues Excluding Capital Grants	94	97	103	110	118	121	125	129	134	138
Total Expenses from Ordinary Activities	100	103	107	111	116	120	124	128	134	139
Net surplus/(deficit) operating result for the year before grants and contributions provided for capital purposes	(6)	(6)	(4)	(1)	2	1	1	1	0	(1)
NON CASH ITEMS	17	17	17	16	16	16	16	16	16	16
Total Net Surplus/(Deficit) from Operating Activities excluding non-cash items (used to fund Capital Expenditure)	11	11	13	15	18	17	17	17	16	15
Capital Grants and Contributions	5	1	1	1	1	1	1	1	1	1
Total Net Surplus/(Deficit) from Operating Activities plus Capital Grants	(1)	(5)	(3)	0	3	2	2	2	1	0

Summary of Cash Flow Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Receipts	100	97	103	110	117	122	126	130	134	138
Total Payments	84	86	90	95	99	104	108	112	117	121
Net Cash provided by (or used in) Operating Activities	16	11	13	15	18	18	18	18	17	17
Total Receipts	10	3	3	4	2	2	2	2	2	3
Total Payments	26	9	11	16	16	16	16	16	15	16
Net Cash provided by (or used in) Investing Activities	(16)	(6)	(8)	(12)	(14)	(14)	(14)	(14)	(13)	(13)
Net Cash provided by (or used in) Financing Activities	0	(5)	(5)	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Net Increase (Decrease) in cash held	0	0	0	0	0	0	0	0	0	0
Cash Assets	23	23	23	23	23	23	23	23	23	23

Summary of Balance Sheet Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Assets	877	866	859	856	854	853	852	850	847	844
Total Liabilities	81	76	72	69	65	61	58	54	50	47
NET ASSETS	796	790	787	787	789	792	794	796	797	797
TOTAL EQUITY	796	790	787	787	789	792	794	796	797	797

SUMMARY OF SCENARIO

The Council can continue to meet its short-term financial obligations and in the long-term its financial position is healthier than Option 2, though a number of key measures remain under the benchmark for the life of the *LTFP*. By 2023/24 Operating Result is within acceptable benchmark with a deficit of -$672K.

Significant improvement in most key financial performance measures (particularly the Operating Result), but with a need to continue addressing built asset funding shortfall.

SENSITIVITY ANALYSIS

Optimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue increases										
Rates (inc growth)	0.3%	146	310	505	736	959	1196	1448	1715	1998
Discretionary Fees	0.5%	50	102	160	220	284	350	421	497	577
Untied Grants from 17/18	0.5%	0	0	46	96	149	208	270	338	412
Expenditure decreases										
Employment	(0.3%)	140	292	457	458	832	1040	1263	1502	1757
Other Expenditure	(0.5%)	131	270	418	753	741	914	1097	1291	1496

Pessimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue decreases										
Rates (inc growth)	(0.3%)	($146)	($309)	($502)	($730)	($949)	($1,180)	($1,424)	($1,681)	($1,953)
Discretionary Fees	(1.0%)	($100)	($205)	($314)	($430)	($550)	($675)	($807)	($944)	($1,087)
Untied Grants from 17/18	(1.0%)	$0	$0	($92)	($189)	($294)	($407)	($526)	($654)	($789)
Expenditure increases										
Employment	0.3%	($147)	($308)	($484)	($677)	($886)	($1,109)	($1,350)	($1,608)	($1,888)
Other Expenditure	1.0%	($261)	($545)	($848)	($1,173)	($1,522)	($1,894)	($2,292)	($2,718)	($3,172)

SUMMARY OF SENSITIVITY ANALYSIS

Sensitivity analysis has highlighted that under the Optimistic analysis, revenue could increase by between $46k and $1,998k (i.e. up to 1.4% of total revenue) and expenditure could decrease by between $131k and $1,757k (i.e. up to 1.3% of total expenditure). In either of these optimistic events, the Council would apply the favourable outcome towards asset renewal and maintenance requirements and/or reducing Council's debt to improve the operating deficits.

Under the pessimistic case, revenue could decrease by between $92k and $1,953k (i.e. up to 1.4% of total revenue) and expenditure could increase by between $147k and $3,172k (i.e. up to 2.3% of total expenditure). In either of these pessimistic events, the Council would manage the unfavourable outcome by reducing and rebalancing service levels to address priority risks.

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BUDGET SUMMARY - GENERAL FUND
Scenario: 1

					Projected Years					
	2014/15 $'000	2015/16 $'000	2016/17 $'000	2017/18 $'000	2018/19 $'000	2019/20 $'000	2020/21 $'000	2021/22 $'000	2022/23 $'000	2023/24 $'000
Income from Continuing Operations										
Rates & Annual Charges	60,415	62,330	67,844	73,868	80,702	83,536	86,459	89,492	92,639	95,353
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue	1,513	1,518	1,522	1,527	1,532	1,537	1,542	1,548	1,553	1,559
Other Revenues	3,189	3,275	3,364	3,455	3,549	3,645	3,745	3,848	3,954	4,063
Grants & Contributions provided for Operating Purposes	12,630	12,660	12,692	13,081	13,485	13,903	14,337	14,786	15,252	15,741
Grants & Contributions provided for Capital Purposes	5,151	752	752	752	752	752	752	752	752	752
Net gains from the disposal of assets	236	243	250	258	266	274	282	290	299	308
Total Income from Continuing Operations	**99,616**	**97,716**	**103,830**	**110,828**	**118,668**	**122,384**	**126,374**	**130,509**	**134,793**	**138,687**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	46,023	47,946	50,198	52,651	55,216	57,569	59,965	62,391	64,989	67,694
Borrowing Costs	3,987	3,825	3,502	3,184	2,966	2,685	2,422	2,164	1,890	1,612
Materials & Contracts	19,522	20,553	22,427	24,132	25,791	27,009	28,444	29,909	31,394	33,050
Depreciation & Amortisation	16,615	16,735	16,514	16,311	16,212	16,167	16,145	16,123	16,105	16,088
Other Expenses	14,038	13,917	14,373	15,054	15,806	16,474	17,316	18,203	19,157	20,163
Total Expenses from Continuing Operations	**100,185**	**102,977**	**107,014**	**111,332**	**115,991**	**119,904**	**124,291**	**128,790**	**133,535**	**138,607**
Net Operating Profit /(Loss) for the Year	**(568)**	**(5,261)**	**(3,185)**	**(503)**	**2,677**	**2,480**	**2,083**	**1,719**	**1,258**	**80**
Capital (Balance Sheet) and Reserve Movements										
Capital Expenditure	(25,837)	(8,132)	(9,105)	(14,409)	(15,612)	(15,716)	(15,690)	(15,625)	(15,631)	(15,508)
Loan Repayments (External)	(4,706)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Finance Lease Repayments	-	(44)	(43)	(43)	(45)	(44)	(43)	(43)	(45)	(45)
New Loan Borrowings (External)	4,579	240	135	2,000	-	-	-	-	-	-
Proceeds from Sale of intangible & tangible Assets	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Other Capital Receipts	-	-	71	45	58	-	71	45	58	-
Net Transfers (to)/from Reserves	6,428	(958)	(2,352)	(2,164)	(1,024)	(485)	(250)	300	1,017	1,780
Total Capital (Balance Sheet) and Reserve Movements	**(16,047)**	**(11,474)**	**(13,329)**	**(15,808)**	**(18,889)**	**(18,647)**	**(18,228)**	**(17,842)**	**(17,363)**	**(16,168)**
Net Result (including Depreciation & Other non-cash items)	**(16,615)**	**(16,735)**	**(16,514)**	**(16,311)**	**(16,212)**	**(16,167)**	**(16,145)**	**(16,123)**	**(16,105)**	**(16,088)**
Add back Depreciation Expense (non-cash)	16,615	16,735	16,514	16,311	16,212	16,167	16,145	16,123	16,105	16,088
Cash Budget Surplus/(Deficit)	**0**	**(0)**	**(0)**	**0**	**(0)**	**(0)**	**0**	**(0)**	**(0)**	**(0)**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BALANCE SHEET - GENERAL FUND
Scenario: 1

	Projected Years									
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS										
Current Assets										
Cash & Cash Equivalents	12,725	12,986	13,487	14,102	14,366	14,436	14,222	13,885	13,185	12,288
Investments	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Receivables	5,257	5,299	5,614	5,957	6,327	6,518	6,719	6,923	7,128	7,311
Inventories	363	382	417	449	479	502	529	556	584	614
Other	299	307	328	349	371	387	408	429	450	474
Total Current Assets	28,551	29,486	32,064	34,460	35,723	36,313	36,731	36,605	35,774	34,207
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	837,297	826,224	816,022	810,560	807,920	806,129	804,413	802,637	800,905	799,020
Investments Accounted for using the equity method	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267
Investment Property	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535
Total Non-Current Assets	848,099	837,026	826,824	821,362	818,722	816,931	815,215	813,439	811,707	809,822
TOTAL ASSETS	**876,650**	**866,511**	**858,888**	**855,822**	**854,446**	**853,244**	**851,947**	**850,044**	**847,482**	**844,029**
LIABILITIES										
Current Liabilities										
Payables	8,020	8,220	8,691	9,182	9,686	10,064	10,515	10,979	11,462	11,981
Borrowings	5,378	5,210	5,195	4,726	4,126	3,996	4,227	4,472	4,118	3,543
Provisions	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729
Total Current Liabilities	25,128	25,158	25,614	25,637	25,540	25,788	26,470	27,180	27,309	27,253
Non-Current Liabilities										
Borrowings	53,295	48,386	43,491	40,907	36,948	33,018	28,956	24,626	20,675	17,197
Provisions	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
Total Non-Current Liabilities	55,737	50,828	45,934	43,349	39,391	35,460	31,399	27,068	23,118	19,640
TOTAL LIABILITIES	**80,865**	**75,986**	**71,548**	**68,986**	**64,931**	**61,249**	**57,869**	**54,248**	**50,426**	**46,893**
Net Assets	**795,785**	**790,525**	**787,340**	**786,836**	**789,515**	**791,995**	**794,078**	**795,796**	**797,055**	**797,136**
EQUITY										
Retained Earnings	370,365	365,105	361,920	361,416	364,095	366,575	368,658	370,376	371,635	371,716
Revaluation Reserves	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420
Total Equity	**795,785**	**790,525**	**787,340**	**786,836**	**789,515**	**791,995**	**794,078**	**795,796**	**797,055**	**797,136**

FINANCIAL SCENARIO 2
(including Funding Option 2 – Service Levels Maintained)

REVENUE ASSUMPTIONS

Under this scenario the Environment Levy is continued in 2015-16 (6.6% including the estimated 3% rate peg) and there are three additional rates increases of 7.4% each (including 3% rate peg)-a cumulative rate increase of 32.1% over four years (including rate peg).

This is an additional $70.3M in revenue over these 10 years.

Apart from the key rating revenue assumptions above, other assumptions include revenue increases in Contributions, Discretionary Fees and Other Revenue by 3%, Annual Charges by 5%, Financial Assistance Grant by 0% for the first 3 years and then by 4%, Special Purpose Grants by 1.5% and Regulatory Fees by 1%.

EXPENDITURE ASSUMPTIONS

Scenario 2 ($M)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
Operating Expenditure (excl. Depn.)	84	87	91	95	99	103	107	112	116	121	**1,015**
Capital Expenditure	26	9	9	13	13	13	13	13	13	13	**135**
***LTFP* Total Expenditure (excl. Depn.)**	**110**	**96**	**100**	**108**	**112**	**116**	**120**	**125**	**129**	**134**	**1,150**

Under Scenario 2 the proposed allocation of the additional $70.3 Million revenue obtained from the Special Rate Variation over 2015 to 2024 is expended as follows (subject to an annual review of *Asset Management Plan* priority risk assessment and best value resource allocation):

- Built Infrastructure $33.0 Million;
- Environment $19.3 Million;
- Emergency Preparedness and Response $2.0 Million; and
- Community & Recreation Facilities $16.0 Million

Option 2 proposes reinstating the existing Environment Levy and continuing it on a permanent basis to fund environment operational and capital works. According to the *Workforce Management Strategy (Part 5 Section 5.5)* the additional funding produced from this Option will require the need for additional skills in the order of 25 full time employees over the 10 year period. However, with natural attrition it is expected that overall there will be a small reduction in the size of the workforce of approx. 5 full time employees.

Additionally, under Option 2, the loan repayment savings from the Council's Strategy 3 are used to fund operations which allows the Council a parameter of 3% on operational cost which means service's will not need to be constrained to the same degree as under Option 3.

IMPACT ON SERVICE LEVELS

- We only maintain built infrastructure: 21% of built assets stay in poor condition, funding prioritized to maintain rather than renew of upgrade and to manage risk
- We only retain emergency preparedness and response: retain existing capacity to address emergencies, no improvement.
- We continue to protect the environment: continue weed control, water quality monitoring, stormwater pollution control, restore bushland, and support Bushcare and Landcare programs.
- We only maintain services to community: maintain current capacity to support and advocate for community services. No improvement to facilities, funding targeted to manage risk. Possible closure of unsafe facilities.

FINANCIAL STATEMENTS

A summary of the financial statements is included below, with the full statements included in the attachments.

Summary of Profit & Loss Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Revenues Excluding Capital Grants	94	97	102	107	114	117	121	125	129	133
Total Expenses from Ordinary Activities	100	103	107	110	115	118	122	127	131	136
Net surplus/(deficit) operating result for the year before grants and contributions provided for capital purposes	(6)	(6)	(5)	(3)	(1)	(1)	(1)	(2)	(2)	(3)
NON CASH ITEMS	17	17	17	16	16	16	16	16	16	16
Total Net Surplus/(Deficit) from Operating Activities excluding non-cash items (used to fund Capital Expenditure)	11	11	12	13	15	15	15	14	14	13
Capital Grants and Contributions	5	1	1	1	1	1	1	1	1	1
Total Net Surplus/(Deficit) from Operating Activities plus Capital Grants	(1)	(5)	(4)	(2)	0	0	0	(1)	(1)	(2)

Summary of Cash Flow Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Receipts	100	97	102	108	114	118	122	126	130	134
Total Payments	84	86	90	94	98	102	106	111	115	120
Net Cash provided by (or used in) Operating Activities	16	11	12	14	16	16	16	15	15	14
Total Receipts	10	3	3	4	2	2	2	2	2	3
Total Payments	26	9	10	14	14	14	14	13	13	13
Net Cash provided by (or used in) Investing Activities	(16)	(6)	(7)	(11)	(11)	(12)	(12)	(11)	(11)	(10)
Net Cash provided by (or used in) Financing Activities	0	(5)	(5)	(3)	(5)	(4)	(4)	(4)	(4)	(4)
Net Increase (Decrease) in cash held	0	0	0	0	0	0	0	0	0	0
Cash Assets	23	23	23	23	23	23	23	23	23	23

Summary of Balance Sheet Statement ($M)

	Projected									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Assets	877	866	858	853	850	846	842	837	832	827
Total Liabilities	81	76	71	69	65	61	58	54	50	47
NET ASSETS	796	790	787	784	785	785	784	783	782	780
TOTAL EQUITY	796	790	787	784	785	785	784	783	782	780

SUMMARY OF SCENARIO
The Council can continue to meet its short-term financial obligations and in the long-term, its position is healthier though a number of key measures remain under the benchmark for the life of the *LTFP*.
By 2023/24 Operating Result is NOT within acceptable benchmark being a deficit of - $3M.
Some improvement with need to further improve Operating Result and address built asset funding shortfall.

SENSITIVITY ANALYSIS
Optimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue increases										
Rates (inc growth)	0.3%	146	306	491	703	913	1,137	1,374	1,626	1,893
Discretionary Fees	0.5%	50	102	159	219	284	351	422	496	577
Untied Grants from 17/18	0.5%	-	-	46	95	149	208	271	339	412
Expenditure decreases										
Employment	(0.3%)	140	292	457	638	833	1,041	1,263	1,502	1,757
Other Expenditure	(0.5%)	131	270	418	574	739	913	1,097	1,291	1,496

Pessimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue decreases										
Rates (inc growth)	(0.3%)	($145)	($306)	($488)	($697)	($903)	($1,121)	($1,351)	($1,594)	($1,850)
Discretionary Fees	(1.0%)	($99)	($205)	($314)	($429)	($550)	($675)	($806)	($943)	($1,087)
Untied Grants from 17/18	(1.0%)	$0	$0	($92)	($190)	($295)	($407)	($527)	($654)	($789)
Expenditure increases										
Employment	0.3%	($308)	($308)	($485)	($676)	($886)	($1,109)	($1,349)	($1,608)	($1,888)
Other Expenditure	1.0%	($101)	($545)	($847)	($1,174)	($1,522)	($1,894)	($2,293)	($2,718)	($3,172)

SUMMARY OF SENSITIVITY ANALYSIS

Sensitivity analysis has highlighted that under the Optimistic analysis revenue could increase by between $46k and $1,893k (i.e. up to 1.4% of total revenue) and expenditure could decrease by between $131k and $1,757k (i.e. up to 1.3% of total expenditure). In either of these optimistic events, the Council would apply the favourable outcome towards asset renewal and maintenance requirements and/or reducing Council’s debt to improve the operating deficits.

Under the pessimistic case, revenue could decrease by between $92k and $1,850k (i.e. up to 1.4% of total revenue) and expenditure could increase by between $101k and $3,172k (i.e. up to 2.3% of total expenditure). In either of these pessimistic events, the Council would manage the unfavourable outcome by reducing and rebalancing service levels to address priority risks.

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BUDGET SUMMARY - GENERAL FUND
Scenario: 2

					Projected Years					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Income from Continuing Operations										
Rates & Annual Charges	60,415	62,330	66,746	71,483	76,814	79,526	82,323	85,225	88,238	90,813
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue	1,513	1,518	1,522	1,527	1,532	1,537	1,542	1,548	1,553	1,559
Other Revenues	3,189	3,275	3,364	3,455	3,549	3,645	3,745	3,848	3,954	4,063
Grants & Contributions provided for Operating Purposes	12,630	12,660	12,692	13,081	13,485	13,903	14,337	14,786	15,252	15,741
Grants & Contributions provided for Capital Purposes	5,151	752	752	752	752	752	752	752	752	752
Net gains from the disposal of assets	236	243	250	258	266	274	282	290	299	308
Total Income from Continuing Operations	**99,616**	**97,716**	**102,732**	**108,443**	**114,781**	**118,374**	**122,238**	**126,242**	**130,392**	**134,148**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	46,023	47,946	50,198	52,651	55,216	57,569	59,965	62,391	64,989	67,694
Borrowing Costs	3,987	3,825	3,502	3,184	2,966	2,685	2,422	2,164	1,890	1,612
Materials & Contracts	19,522	20,553	21,944	23,257	24,427	25,690	26,990	28,272	29,687	31,182
Depreciation & Amortisation	16,615	16,735	16,514	16,299	16,171	16,078	16,004	15,933	15,868	15,804
Other Expenses	14,038	13,917	14,373	15,054	15,806	16,474	17,316	18,203	19,157	20,163
Total Expenses from Continuing Operations	**100,185**	**102,977**	**106,531**	**110,445**	**114,586**	**118,496**	**122,697**	**126,963**	**131,591**	**136,455**
Net Operating Profit /(Loss) for the Year	**(568)**	**(5,261)**	**(3,799)**	**(2,002)**	**195**	**(122)**	**(459)**	**(721)**	**(1,198)**	**(2,307)**
Capital (Balance Sheet) and Reserve Movements										
Capital Expenditure	(25,837)	(8,132)	(8,503)	(12,931)	(13,146)	(13,089)	(13,079)	(13,076)	(13,027)	(12,936)
Loan Repayments (External)	(4,706)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Finance Lease Repayments	-	(44)	(43)	(43)	(45)	(44)	(43)	(43)	(45)	(45)
New Loan Borrowings (External)	4,579	240	135	2,000	-	-	-	-	-	-
Proceeds from Sale of intangible & tangible Assets	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Other Capital Receipts	-	-	71	45	58	-	71	45	58	-
Net Transfers (to)/from Reserves	6,428	(958)	(2,339)	(2,132)	(967)	(420)	(177)	381	1,107	1,879
Total Capital (Balance Sheet) and Reserve Movements	**(16,047)**	**(11,474)**	**(12,715)**	**(14,297)**	**(16,366)**	**(15,956)**	**(15,545)**	**(15,212)**	**(14,670)**	**(13,497)**
Net Result (including Depreciation & Other non-cash items)	**(16,615)**	**(16,735)**	**(16,514)**	**(16,299)**	**(16,171)**	**(16,078)**	**(16,004)**	**(15,933)**	**(15,868)**	**(15,804)**
Add back Depreciation Expense (non-cash)	16,615	16,735	16,514	16,299	16,171	16,078	16,004	15,933	15,868	15,804
Cash Budget Surplus/(Deficit)	**0**	**(0)**	**0**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
CASH FLOW STATEMENT - GENERAL FUND
Scenario: 2

					Projected Years					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash Flows from Operating Activities										
Receipts:										
Rates & Annual Charges	60,350	62,265	66,597	71,323	76,635	79,435	82,229	85,128	88,137	90,727
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue Received	1,561	1,492	1,462	1,467	1,477	1,511	1,516	1,525	1,536	1,552
Grants & Contributions	17,769	13,453	13,443	13,829	14,233	14,651	15,085	15,534	16,000	16,489
Other	3,322	3,303	3,346	3,436	3,533	3,610	3,705	3,807	3,912	4,016
Payments:										
Employee Benefits & On-Costs	(46,023)	(47,946)	(50,198)	(52,651)	(55,216)	(57,569)	(59,965)	(62,391)	(64,989)	(67,694)
Materials & Contracts	(20,018)	(20,401)	(21,645)	(22,931)	(24,108)	(25,375)	(26,638)	(27,915)	(29,297)	(30,771)
Borrowing Costs	(3,981)	(3,824)	(3,503)	(3,185)	(2,964)	(2,685)	(2,422)	(2,165)	(1,889)	(1,612)
Other	(14,038)	(13,917)	(14,373)	(15,054)	(15,806)	(16,474)	(17,316)	(18,203)	(19,157)	(20,163)
Net Cash provided (or used in) Operating Activities	15,426	11,363	12,536	14,123	16,167	15,841	15,451	15,113	14,596	13,454
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities	6,428	-	-	-	-	-	-	41	386	908
Sale of Infrastructure, Property, Plant & Equipment	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Payments:										
Purchase of Investment Securities	-	(605)	(1,706)	(1,385)	(577)	(289)	(384)	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(25,917)	(8,132)	(8,574)	(12,976)	(13,204)	(13,089)	(13,151)	(13,122)	(13,085)	(12,936)
Net Cash provided (or used in) Investing Activities	(16,000)	(6,024)	(7,167)	(10,497)	(11,417)	(11,765)	(11,921)	(11,467)	(11,086)	(10,414)
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	4,579	240	206	2,045	58	-	71	45	58	-
Proceeds from Finance Leases	58	-	71	45	58	-	71	45	58	-
Payments:										
Repayment of Borrowings & Advances	(4,803)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Repayment of Finance Lease Liabilities	(24)	(24)	(38)	(43)	(45)	(44)	(43)	(43)	(45)	(44)
Net Cash Flow provided (used in) Financing Activities	(190)	(5,078)	(4,910)	(3,053)	(4,559)	(4,060)	(3,831)	(4,085)	(4,305)	(4,052)
Net Increase/(Decrease) in Cash & Cash Equivalents	(764)	261	459	573	191	16	(301)	(439)	(794)	(1,013)
plus: Cash, Cash Equivalents & Investments - beginning of year	13,489	12,725	12,986	13,444	14,018	14,208	14,225	13,924	13,485	12,690
Cash & Cash Equivalents - end of the year	**12,725**	**12,986**	**13,444**	**14,018**	**14,208**	**14,225**	**13,924**	**13,485**	**12,690**	**11,678**
Cash & Cash Equivalents - end of the year	12,725	12,986	13,444	14,018	14,208	14,225	13,924	13,485	12,690	11,678
Investments - end of the year	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Cash, Cash Equivalents & Investments - end of the year	**22,632**	**23,497**	**25,663**	**27,621**	**28,388**	**28,694**	**28,777**	**28,298**	**27,118**	**25,197**
Representing:										
- External Restrictions	5,867	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545
- Internal Restricitons	13,053	14,333	16,673	18,804	19,771	20,191	20,369	19,988	18,881	17,002
- Unrestricted	3,712	3,619	3,446	3,272	3,073	2,958	2,864	2,765	2,692	2,651
	22,632	**23,497**	**25,663**	**27,621**	**28,388**	**28,694**	**28,777**	**28,298**	**27,118**	**25,197**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BALANCE SHEET - GENERAL FUND
Scenario: 2

	Projected Years									
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS										
Current Assets										
Cash & Cash Equivalents	12,725	12,986	13,444	14,018	14,208	14,225	13,924	13,485	12,690	11,678
Investments	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Receivables	5,257	5,299	5,566	5,854	6,159	6,345	6,540	6,737	6,936	7,112
Inventories	363	382	408	432	454	477	502	525	552	580
Other	299	307	324	341	359	376	395	414	435	458
Total Current Assets	28,551	29,486	31,960	34,248	35,360	35,892	36,214	35,975	35,041	33,346
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	837,297	826,224	815,421	808,492	803,427	799,098	794,913	790,778	786,680	782,506
Investments Accounted for using the equity method	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267
Investment Property	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535
Total Non-Current Assets	848,099	837,026	826,223	819,294	814,229	809,900	805,715	801,580	797,482	793,308
TOTAL ASSETS	**876,650**	**866,511**	**858,183**	**853,542**	**849,589**	**845,792**	**841,929**	**837,554**	**832,523**	**826,654**
LIABILITIES										
Current Liabilities										
Payables	8,020	8,220	8,601	9,016	9,425	9,810	10,237	10,669	11,139	11,630
Borrowings	5,378	5,210	5,195	4,726	4,126	3,996	4,227	4,472	4,118	3,543
Provisions	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729
Total Current Liabilities	25,128	25,158	25,524	25,470	25,279	25,534	26,192	26,870	26,986	26,902
Non-Current Liabilities										
Borrowings	53,295	48,386	43,491	40,907	36,948	33,018	28,956	24,626	20,675	17,197
Provisions	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
Total Non-Current Liabilities	55,737	50,828	45,934	43,349	39,391	35,460	31,399	27,068	23,118	19,640
TOTAL LIABILITIES	**80,865**	**75,986**	**71,458**	**68,819**	**64,670**	**60,994**	**57,591**	**53,938**	**50,103**	**46,542**
Net Assets	**795,785**	**790,525**	**786,726**	**784,723**	**784,919**	**784,797**	**784,338**	**783,616**	**782,420**	**780,113**
EQUITY										
Retained Earnings	370,365	365,105	361,306	359,303	359,499	359,377	358,918	358,196	357,000	354,693
Revaluation Reserves	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420
Total Equity	**795,785**	**790,525**	**786,726**	**784,723**	**784,919**	**784,797**	**784,338**	**783,616**	**782,420**	**780,113**

FINANCIAL SCENARIO 3
(including Funding Option 3 – Service Levels Reduced)

REVENUE ASSUMPTIONS

The current Environment Levy expires in June 2015 and is not renewed, resulting in a loss of $17M in revenue by 2023-2024.

Rates increase by rate peg only (estimated at 3% annually)- a cumulative increase over four years of 12.6%

Apart from the key rating revenue assumptions above, other assumptions include revenue increases in Contributions, Discretionary Fees and Other Revenue by 3%, Annual Charges by 5%, Financial Assistance Grant by 0% for the first 3 years and then by 4%, Special Purpose Grants by 1.5% and Regulatory Fees by 1%.

EXPENDITURE ASSUMPTIONS

Scenario 3 ($M)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	Total
Operating Expenditure (excl. Depn.)	84	85	89	91	95	98	101	105	108	112	**968**
Capital Expenditure	26	8	7	10	8	9	9	10	10	10	**107**
***LTFP* Total Expenditure (excl. Depn.)**	**110**	**93**	**96**	**101**	**103**	**107**	**110**	**115**	**118**	**122**	**1,075**

Option 3 proposes no Special Variation including the expiry of the current Environment Levy. There will be a loss of $17 Million in revenue over the 10 year period which will result in a significant decrease in funding of environmental operational and capital works. According to the *Workforce Management Strategy (Part 5 Section 5.5)* the reduction in funding resulting from this Option will impact the workforce directly engaged in Environmental Levy work; consequently a reduction of approximately eight full-time employees will take effect in 2015/16.

Additionally, under Option 3, the loan repayment savings from the Council's Strategy 3 are used to fund the needs of the Asset Works Program and the Council will be required to constrain its annual operational budget by a parameter of 2% for operational costs, which means a reduction in the Council service levels to the community.

Operating expenditure, other than employment costs have been constrained to provide additional funding for asset maintenance and renewal works.

IMPACT ON SERVICE LEVELS

- We cannot further invest in built infrastructure: worse roads, town centres, public toilets, buildings, footpaths and drainage.
- We cannot improve emergency preparedness and response: less capacity to prepare for and respond to emergencies such as bushfires. More fire trails and asset protection zones in poor condition.
- We cannot continue to protect the environment: No water quality monitoring, less weed control, less restoration of bushland, habitat and waterways, less stormwater pollution control.
- We cannot support or improve services to community: Worse community and recreation facilities, less capacity to support and advocate for community services. Closure of unsafe facilities.

FINANCIAL STATEMENTS

A summary of the financial statements is included below, with the full statements included in the attachments to this report.

Summary of Profit & Loss Statement ($M)

	Projected $M									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Total Revenues Excluding Capital Grants	94	95	98	101	105	108	112	115	119	122
Total Expenses from Ordinary Activities	100	101	104	107	111	113	117	120	124	127

FINANCIAL SCENARIO 3
(including Funding Option 3 – Service Levels Reduced)

Net surplus/(deficit) operating result for the year before grants and contributions provided for capital purposes	(6)	(6)	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(5)
NON CASH ITEMS	17	17	17	16	16	16	16	16	15	15
Total Net Surplus/(Deficit) from Operating Activities excluding non-cash items (used to fund Capital Expenditure)	11	11	11	10	10	11	11	11	10	10
Capital Grants and Contributions	5	1	1	1	1	1	1	1	1	1
Total Net Surplus/(Deficit) from Operating Activities plus Capital Grants	(1)	(5)	(5)	(5)	(5)	(4)	(4)	(4)	(4)	(4)

Summary of Cash Flow Statement ($M)

	Projected $M									
	14/15	**15/16**	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**
Total Receipts	100	96	99	102	105	109	112	116	120	122
Total Payments	84	85	88	91	94	98	101	104	108	111
Net Cash provided by (or used in) Operating Activities	16	11	11	11	11	11	11	12	12	11
Total Receipts	10	3	3	4	2	2	2	2	2	3
Total Payments	26	9	9	12	9	9	9	10	10	10
Net Cash provided by (or used in) Investing Activities	(16)	(6)	(6)	(8)	(7)	(7)	(7)	(8)	(8)	(7)
Net Cash provided by (or used in) Financing Activities	0	(5)	(5)	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Net Increase (Decrease) in cash held	0	0	0	0	0	0	0	0	0	0
Cash Assets	23	23	23	23	23	23	23	23	23	23

Summary of Balance Sheet Statement ($M)

	Projected $M									
	14/15	**15/16**	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**
Total Assets	877	866	855	847	838	830	823	815	807	800
Total Liabilities	81	76	71	68	64	60	57	53	49	45
NET ASSETS	796	790	784	779	774	770	766	762	758	755
TOTAL EQUITY	796	790	784	779	774	770	766	762	758	755

SUMMARY OF SCENARIO

While the Council can continue to meet its short term financial obligations, the long-term position is unsustainable despite significant adjustments to the services and the number of facilities provided by the Council.

By 2023/2024 Operating Result is NOT within acceptable benchmark being a deficit of - $5M.

Unsustainable financial position with significant deterioration in built infrastructure.

SENSITIVITY ANALYSIS

Optimistic:

FINANCIAL SCENARIO 3
(including Funding Option 3 – Service Levels Reduced)

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue increases										
Rates (inc growth)	0.3%	140	290	450	620	800	991	1,195	1,410	1,639
Discretionary Fees	0.5%	50	103	160	219	284	350	421	496	576
Untied Grants from 17/18	0.5%	$0	$0	46	95	149	207	271	339	412
Expenditure decreases										
Employment	-0.3%	140	291	457	636	829	1,035	1,255	1,490	1,743
Other Expenditure	-0.5%	130	264	399	540	688	840	998	1,162	1,331

Pessimistic:

	% Sensitivity Adjustment	15/16 $000	16/17 $000	17/18 $000	18/19 $000	19/20 $000	20/21 $000	21/22 $000	22/23 $000	23/24 $000
Revenue decreases										
Rates (inc growth)	-0.3%	($140)	($289)	($447)	($614)	($790)	($978)	($1,174)	($1,382)	($1,602)
Discretionary Fees	-1.0%	($100)	($205)	($314)	($429)	($550)	($675)	($807)	($943)	($1,087)
Untied Grants from 17/18	-1.0%	$0	$0	($92)	($190)	($295)	($407)	($527)	($654)	($789)
Expenditure increases										
Employment	0.3%	($147)	($308)	($483)	($673)	($880)	($1,101)	($1,338)	($1,593)	($1,867)
Other Expenditure	1.0%	($261)	($529)	($811)	($1,107)	($1,417)	($1,743)	($2,085)	($2,446)	($2,825)

SUMMARY OF SENSITIVITY ANALYSIS

Sensitivity analysis has highlighted that under the Budget improvements analysis revenue could increase by between $46k and $1639k (i.e. Up to 1.3% of total revenue) and expenditure could decrease by between $130k and $1,743k (i.e. up to 1.3% of total expenditure). In either of these optimistic events, the Council would apply the favourable outcome towards asset renewal and maintenance requirements and/or reducing Council's debt to improve the operating deficits.

Under the pessimistic case, revenue could decrease by between $92k and $1602k (i.e. up to 1.3% of total revenue) and expenditure could increase by between $147k and $2,825k (i.e. up to 2.2% of total expenditure). In either of these pessimistic events, the Council would manage the unfavourable outcome by reducing and rebalancing service levels to address priority risks.

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BUDGET SUMMARY - GENERAL FUND
Scenario: 3

					Projected Years					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income from Continuing Operations										
Rates & Annual Charges	60,415	60,737	62,908	65,162	67,755	70,182	72,684	75,283	77,983	80,235
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue	1,513	1,518	1,522	1,527	1,532	1,537	1,542	1,548	1,553	1,559
Other Revenues	3,189	3,275	3,364	3,455	3,549	3,645	3,745	3,848	3,954	4,063
Grants & Contributions provided for Operating Purposes	12,630	12,660	12,692	13,081	13,485	13,903	14,337	14,786	15,252	15,741
Grants & Contributions provided for Capital Purposes	5,151	752	752	752	752	752	752	752	752	752
Net gains from the disposal of assets	236	243	250	258	266	274	282	290	299	308
Total Income from Continuing Operations	**99,616**	**96,123**	**98,894**	**102,123**	**105,722**	**109,030**	**112,599**	**116,300**	**120,137**	**123,569**
Expenses from Continuing Operations										
Employee Benefits & On-Costs	46,023	47,932	50,068	52,374	54,782	57,094	59,454	61,842	64,399	67,064
Borrowing Costs	3,987	3,825	3,502	3,184	2,966	2,685	2,422	2,164	1,890	1,612
Materials & Contracts	19,522	19,407	20,468	21,325	22,014	22,729	23,628	24,517	25,498	26,523
Depreciation & Amortisation	16,615	16,735	16,509	16,268	16,075	15,879	15,710	15,549	15,401	15,260
Other Expenses	14,038	13,814	13,837	14,268	14,716	15,051	15,533	16,034	16,555	17,098
Total Expenses from Continuing Operations	**100,185**	**101,712**	**104,384**	**107,419**	**110,553**	**113,439**	**116,746**	**120,106**	**123,744**	**127,556**
Net Operating Profit /(Loss) for the Year	**(568)**	**(5,590)**	**(5,490)**	**(5,296)**	**(4,831)**	**(4,409)**	**(4,147)**	**(3,806)**	**(3,607)**	**(3,987)**
Capital (Balance Sheet) and Reserve Movements										
Capital Expenditure	(25,837)	(7,943)	(7,281)	(10,252)	(8,377)	(8,765)	(8,994)	(9,449)	(9,696)	(10,096)
Loan Repayments (External)	(4,706)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Finance Lease Repayments	-	(44)	(43)	(43)	(45)	(44)	(43)	(43)	(45)	(45)
New Loan Borrowings (External)	4,579	240	135	2,000	-	-	-	-	-	-
Proceeds from Sale of intangible & tangible Assets	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Other Capital Receipts	-	-	71	45	58	-	71	45	58	-
Net Transfers (to)/from Reserves	6,428	(819)	(1,865)	(1,485)	(614)	(258)	(280)	223	651	1,263
Total Capital (Balance Sheet) and Reserve Movements	**(16,047)**	**(11,145)**	**(11,019)**	**(10,972)**	**(11,244)**	**(11,470)**	**(11,563)**	**(11,743)**	**(11,794)**	**(11,273)**
Net Result (including Depreciation & Other non-cash items)	**(16,615)**	**(16,735)**	**(16,509)**	**(16,268)**	**(16,075)**	**(15,879)**	**(15,710)**	**(15,549)**	**(15,401)**	**(15,260)**
Add back Depreciation Expense (non-cash)	16,615	16,735	16,509	16,268	16,075	15,879	15,710	15,549	15,401	15,260
Cash Budget Surplus/(Deficit)	**0**	**0**	**(0)**	**0**	**(0)**	**0**	**(0)**	**(0)**	**(0)**	**0**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
CASH FLOW STATEMENT - GENERAL FUND
Scenario: 3

					Projected Years					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash Flows from Operating Activities										
Receipts:										
Rates & Annual Charges	60,350	60,726	62,835	65,086	67,668	70,100	72,600	75,196	77,892	80,159
User Charges & Fees	16,484	16,938	17,406	17,887	18,383	18,737	19,258	19,793	20,344	20,911
Interest & Investment Revenue Received	1,561	1,509	1,487	1,496	1,505	1,515	1,519	1,528	1,536	1,551
Grants & Contributions	17,769	13,453	13,443	13,829	14,233	14,651	15,085	15,534	16,000	16,489
Bonds & Deposits Received	-	-	-	-	-	-	-	-	-	-
Other	3,322	3,290	3,328	3,416	3,511	3,608	3,703	3,805	3,909	4,013
Payments:										
Employee Benefits & On-Costs	(46,023)	(47,932)	(50,068)	(52,374)	(54,782)	(57,094)	(59,454)	(61,842)	(64,399)	(67,064)
Materials & Contracts	(20,018)	(19,433)	(20,286)	(21,104)	(21,814)	(22,545)	(23,390)	(24,277)	(25,239)	(26,253)
Borrowing Costs	(3,981)	(3,824)	(3,503)	(3,185)	(2,964)	(2,685)	(2,422)	(2,165)	(1,889)	(1,612)
Bonds & Deposits Refunded	-	-	-	-	-	-	-	-	-	-
Other	(14,038)	(13,814)	(13,837)	(14,268)	(14,716)	(15,051)	(15,533)	(16,034)	(16,555)	(17,098)
Net Cash provided (or used in) Operating Activities	15,426	10,914	10,805	10,784	11,025	11,236	11,365	11,537	11,598	11,096
Cash Flows from Investing Activities										
Receipts:										
Sale of Investment Securities	6,428	-	-	-	-	-	-	41	386	908
Sale of Infrastructure, Property, Plant & Equipment	3,489	2,714	3,114	3,864	2,364	1,614	1,614	1,614	1,614	1,614
Payments:										
Purchase of Investment Securities	-	(605)	(1,706)	(1,385)	(577)	(289)	(384)	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	(25,917)	(7,943)	(7,352)	(10,298)	(8,435)	(8,765)	(9,066)	(9,494)	(9,754)	(10,096)
Net Cash provided (or used in) Investing Activities	(16,000)	(5,834)	(5,945)	(7,819)	(6,648)	(7,441)	(7,836)	(7,840)	(7,754)	(7,574)
Cash Flows from Financing Activities										
Receipts:										
Proceeds from Borrowings & Advances	4,579	240	206	2,045	58	-	71	45	58	-
Proceeds from Finance Leases	58	-	71	45	58	-	71	45	58	-
Payments:										
Repayment of Borrowings & Advances	(4,803)	(5,294)	(5,149)	(5,101)	(4,630)	(4,017)	(3,930)	(4,133)	(4,376)	(4,009)
Repayment of Finance Lease Liabilities	(24)	(24)	(38)	(43)	(45)	(44)	(43)	(43)	(45)	(44)
Net Cash Flow provided (used in) Financing Activities	(190)	(5,078)	(4,910)	(3,053)	(4,559)	(4,060)	(3,831)	(4,085)	(4,305)	(4,052)
Net Increase/(Decrease) in Cash & Cash Equivalents	(764)	2	(50)	(88)	(183)	(265)	(302)	(388)	(461)	(530)
plus: Cash, Cash Equivalents & Investments - beginning of year	13,489	12,725	12,726	12,677	12,588	12,406	12,141	11,839	11,451	10,990
Cash & Cash Equivalents - end of the year	**12,725**	**12,726**	**12,677**	**12,588**	**12,406**	**12,141**	**11,839**	**11,451**	**10,990**	**10,460**

Cash & Cash Equivalents - end of the year	12,725	12,726	12,677	12,588	12,406	12,141	11,839	11,451	10,990	10,460
Investments - end of the year	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Cash, Cash Equivalents & Investments - end of the year	**22,632**	**23,238**	**24,895**	**26,191**	**26,586**	**26,610**	**26,693**	**26,264**	**25,417**	**23,979**
Representing:										
- External Restrictions	5,867	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545	5,545
- Internal Restricitons	13,053	14,194	16,060	17,544	18,158	18,417	18,697	18,474	17,823	16,560
- Unrestricted	3,712	3,500	3,291	3,102	2,883	2,649	2,451	2,245	2,049	1,875
	22,632	**23,238**	**24,895**	**26,191**	**26,586**	**26,610**	**26,693**	**26,264**	**25,417**	**23,979**

Blue Mountains City Council
10 Year Financial Plan for the Years ending 30 June 2024
BALANCE SHEET - GENERAL FUND
Scenario: 3

	Projected Years									
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS										
Current Assets										
Cash & Cash Equivalents	12,725	12,726	12,677	12,588	12,406	12,141	11,839	11,451	10,990	10,460
Investments	9,907	10,512	12,218	13,603	14,180	14,470	14,854	14,813	14,427	13,519
Receivables	5,257	5,228	5,395	5,571	5,756	5,928	6,110	6,295	6,483	6,649
Inventories	363	361	380	396	409	422	439	456	474	493
Other	299	296	306	317	327	337	349	361	375	389
Total Current Assets	28,551	29,123	30,976	32,476	33,078	33,297	33,591	33,376	32,749	31,510
Non-Current Assets										
Infrastructure, Property, Plant & Equipment	837,297	826,034	814,014	804,438	794,700	786,246	778,270	770,892	763,930	757,460
Investments Accounted for using the equity method	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267	2,267
Investment Property	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535	8,535
Total Non-Current Assets	848,099	836,836	824,816	815,240	805,502	797,048	789,072	781,694	774,732	768,262
TOTAL ASSETS	**876,650**	**865,959**	**855,792**	**847,716**	**838,581**	**830,346**	**822,663**	**815,070**	**807,481**	**799,772**
LIABILITIES										
Current Liabilities										
Payables	8,020	7,997	8,230	8,503	8,756	8,990	9,286	9,584	9,906	10,236
Borrowings	5,378	5,210	5,195	4,726	4,126	3,996	4,227	4,472	4,118	3,543
Provisions	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729	11,729
Total Current Liabilities	25,128	24,935	25,153	24,957	24,610	24,714	25,241	25,785	25,752	25,508
Non-Current Liabilities										
Borrowings	53,295	48,386	43,491	40,907	36,948	33,018	28,956	24,626	20,675	17,197
Provisions	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442	2,442
Total Non-Current Liabilities	55,737	50,828	45,934	43,349	39,391	35,460	31,399	27,068	23,118	19,640
TOTAL LIABILITIES	**80,865**	**75,763**	**71,086**	**68,307**	**64,000**	**60,174**	**56,640**	**52,853**	**48,870**	**45,148**
Net Assets	**795,785**	**790,197**	**784,706**	**779,409**	**774,580**	**770,171**	**766,024**	**762,217**	**758,611**	**754,624**
EQUITY										
Retained Earnings	370,365	364,777	359,286	353,989	349,160	344,751	340,604	336,797	333,191	329,204
Revaluation Reserves	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420	425,420
Total Equity	**795,785**	**790,197**	**784,706**	**779,409**	**774,580**	**770,171**	**766,024**	**762,217**	**758,611**	**754,624**

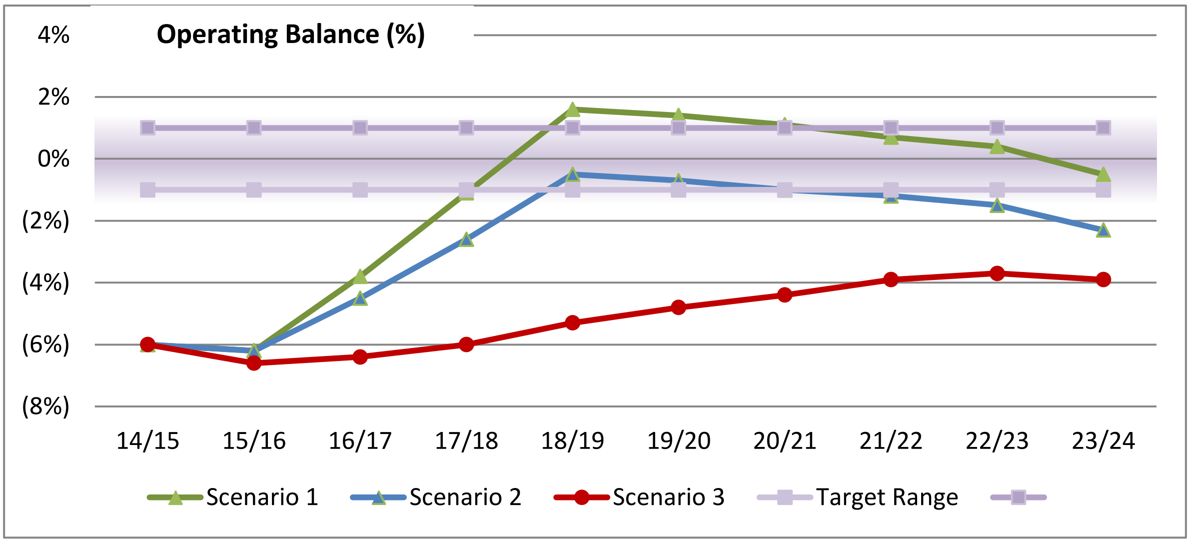
3.6 Measuring financial sustainability

The following sections discuss the impact of each financial scenario on financial performance measures over the 10-year planning period (2014-2024).

3.6.1 Operating Balance %

What is being measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation)
Calculation: Total operating revenue (excluding capital items) less total operating expenses (including depreciation costs) divided by total revenue
Target: Within the range of 1% to -1% (TCorp target is better than -4%)
Comment:

- **Scenario 1**: This indicates a healthier financial position compared to Scenarios 2 and 3 as from 2018-2019 the Council's operating position is in surplus and above the target level of between 1% and -1%. The operating balance increases to a greater extent than under Option 2 and 3 due to the annual rate increases from 2015/2016 to 2018/2019.
- **Scenario 2:** This indicates an unsustainable financial position as the ratio remains below the benchmark for the life of the *LTFP*. The operating balance improvements are, however, greater than under Option 3 due to the annual special variation rate increases from 2015/2016 to 2018/2019.
- **Scenario 3:** The Council is unable to meet the benchmark over the life of the *LTFP*, indicating an unsustainable financial position. This means that the Council will be unable to fully achieve its responsibilities under the City's community strategic plan – *SBM 2025* without significant service adjustments that may not be acceptable to the community.
- **Generally:** The trend in later years of a decrease in the ratio for all scenarios is a result of operating costs continuing to rise faster than the Council's ability to raise revenue due to inflationary cost pressures. It signals the need for the Council to continue its focus on implementing all six strategies to improve financial sustainability of the Council.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	(6%)	(6%)	(4%)	(1%)	2%	1%	1%	1%	0%	(1%)
Scenario 2	(6%)	(6%)	(5%)	(3%)	(1%)	(1%)	(1%)	(1%)	(2%)	(2%)
Scenario 3	(6%)	(7%)	(6%)	(6%)	(5%)	(5%)	(4%)	(4%)	(4%)	(4%)

Figure 3-6 10-year projection - operating balance (%)

3.6.2 Operating balance $ (including depreciation, excluding capital revenue)

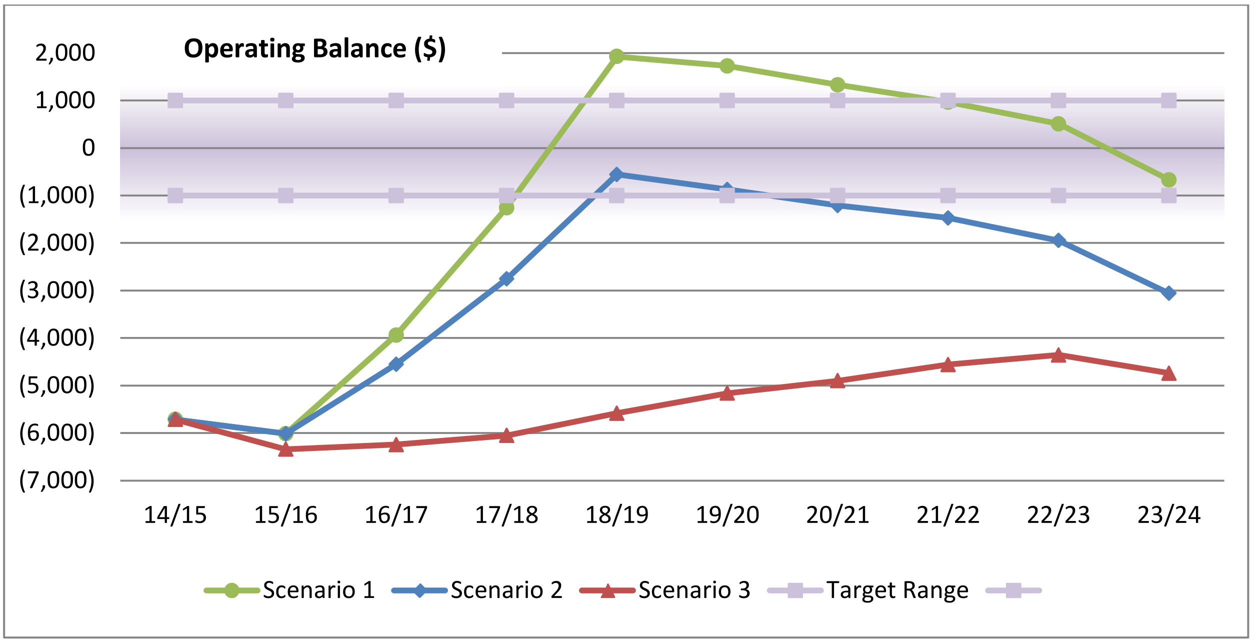
What is being measured: Whether the Council has sufficient revenue (excluding capital grants and contributions) to cover expenditure requirements (including depreciation)

Calculation: Total operating revenue (excluding capital grants and contributions) less total operating expenses (including depreciation costs)

Target: Within the band of $1M to - $1M (Target set by the Council's *LTFP*)

Comment:

- **Scenario 1:** The operating position reaches a surplus in 2018-2019 and remains healthy and above the benchmark, until the final year when the continuing inflationary cost pressures outstrips the Council's revenue capacity. **Importantly, only special variation option 1 achieves the Council's goal of long term financial sustainability since it is the only option that sustains operating surpluses and improves funding of required infrastructure, maintenance and renewal. This option also positions the Council to meet the required "Fit for the Future" criteria within the next 4-10 years.**
- **Scenario 2:** While this measure under this option indicates a significantly healthier operating balance, it remains under the benchmark for the life of the *LTFP*.
- **Scenario 3:** This measure indicates that the Council will have a significant operating deficit for the entire life of the *LTFP* (i.e. a deficit of $4.7M in 2023-2024 and $54M cumulative deficit over the 10 years) which will occur despite significant adjustments to the services provided by the Council. This means that the Council will be unable to fully achieve its responsibilities under the City's Community Strategic Plan – *Sustainable Blue Mountains 2025* without significant service adjustments that may not be acceptable to the community.
- **Generally:** The trend in later years for a decrease in the measure for all options is a result of costs continuing to rise faster than the Council's ability to raise revenue. It signals the need for the Council to continue its focus on implementing all six strategies to improve financial sustainability of the Council. Reducing borrowing costs over the ten years has a positive impact on the Councils operating balance.



$'000)	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	(5,713)	(6,012)	(3,937)	(1,256)	1,927	1,728	1,331	966	508	(672)
Scenario 2	(5,713)	(6,012)	(4,552)	(2,755)	(558)	(874)	(1,211)	(1,474)	(1,949)	(3,059)
Scenario 3	(5,713)	(6,340)	(6,243)	(6,049)	(5,581)	(5,161)	(4,899)	(4,559)	(4,358)	(4,739)

Figure 3-7 10-year projection - operating balance ($)

3.6.3 Unrestricted current ratio

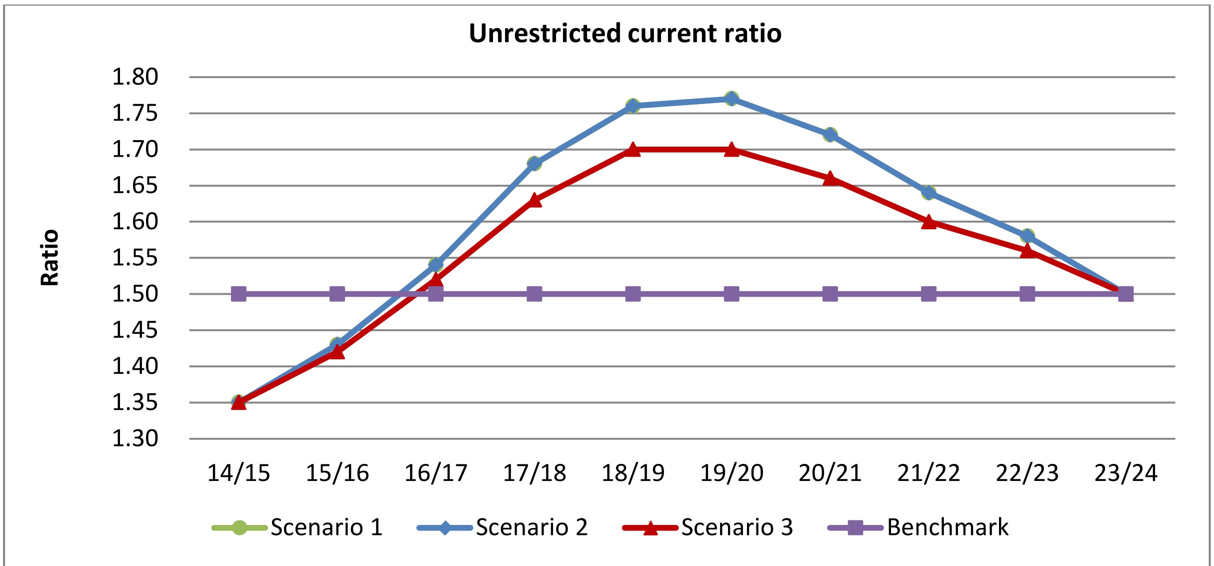
What is being measured: The Council's ability/liquidity to meet short term financial obligations such as loans, payroll and leave entitlements and fund expenditure requirements

Calculation: Ratio of unrestricted current assets (excludes externally restricted assets) divided by unrestricted current liabilities.

Target: Greater than 1.5 : 1.0

- **Scenario 1:** From 2016-2017 the Council maintains a ratio greater than the benchmark with a higher level of liquidity throughout the balance of the life of the *LTFP*
- **Scenario 2:** From 2016- 2017 the Council maintains a ratio greater than the benchmark with a higher level of liquidity throughout the balance of the life of the *LTFP*
- **Scenario 3**: From 2016-2017 the Council maintains a ratio greater than the benchmark with a high level of liquidity throughout the balance of the life of the *LTFP* however at a reduced level compared to Scenarios 1 and 2
- **Generally:** All options in the first half of the *LTFP* reflect the impact of increased Property Investment Fund sales and reduced current outstanding borrowing costs as debt is retired, which both have a favourable impact on the ratio. The ratio reduces over the second half of the *LTFP* due to the retirement of debt being relatively smaller over this period. Each option ensures that the Council has sufficient cash or cash equivalent funds to meet its short-term commitments.

Figure 3-8 shows for each financial scenario, the 10-year annual performance of the unrestricted current ratio.



Note: Scenario 1 and Scenario 2 trend the same under this ratio, and therefore Scenario 1 is not observable on this chart.

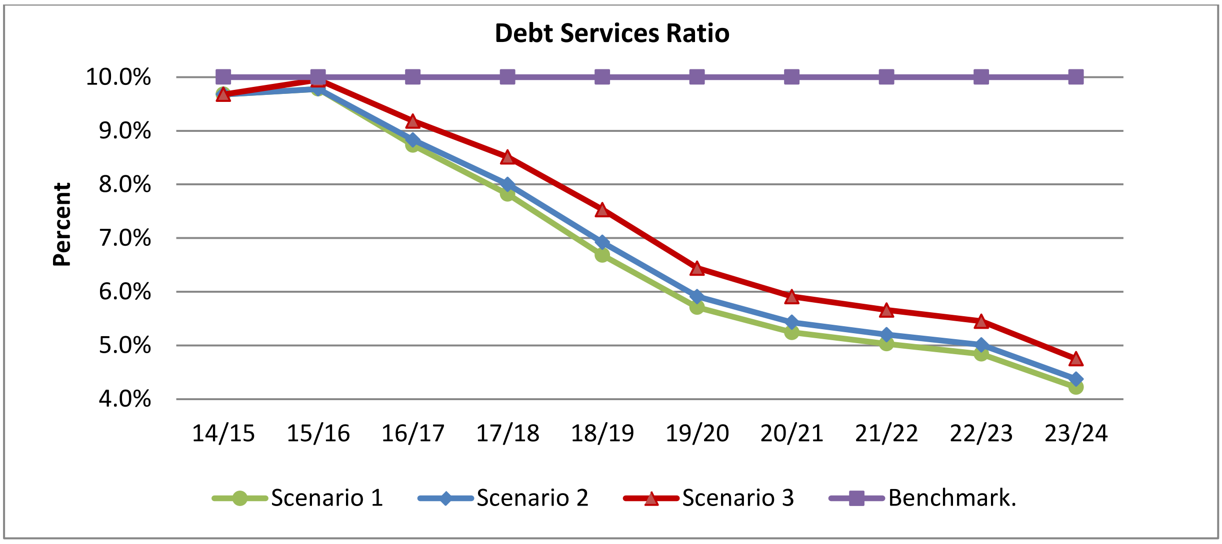
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	1.35	1.43	1.54	1.68	1.76	1.77	1.72	1.64	1.58	1.50
Scenario 2	1.35	1.43	1.54	1.68	1.76	1.77	1.72	1.64	1.58	1.50
Scenario 3	1.35	1.42	1.52	1.63	1.70	1.70	1.66	1.60	1.56	1.50

Figure 3-8 10-year projection - unrestricted current ratio

3.6.4 Debt service ratio

What is being measured: Percentage of the Council's total revenue used to service debt
Calculation: Total loan interest and principal repayments divided by operating revenue
Target: Less than 10%
Comment:

- **Scenario 1**: By 2023-2024 the projected debt service ratio is more sustainable at 4.2% and is significantly below the benchmark.
- **Scenario 2**: By 2023-2024 the projected debt service ratio is more sustainable at 4.4% and is significantly below the benchmark.
- **Scenario 3:** By 2023-2024 the projected debt service ratio is sustainable at 4.8% and is significantly below the benchmark. The ratio is less favourable compared to Scenarios 1 and 2 since these scenarios have increased operating revenue from special variation funding options
- **Generally:** The slight increase in the ratio in 2015-2016 is largely due to the servicing requirements of the NSW Government subsidised loans for Blue Mountains Community & Cultural Facility – Springwood ($6M) and Blaxland Waste Management Facility ($4.9M) that increase loan repayments costs. Improvements to the ratio occur from 2016-2017 as no new debt (apart from prior commitments or contingent on a business case) is incurred in accordance with the financial strategy to manage borrowings responsibility. At the same time, from 2015-2016 to 2019-2020 existing debts with large repayment amounts are retired in each year but from 2019-2020 there are fewer existing debts retiring and operating revenue is increasing. The Council will have sufficient resources to service existing loans over terms of up to 20 years.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	9.7%	9.8%	8.7%	7.8%	6.7%	5.7%	5.2%	5.0%	4.8%	4.2%
Scenario 2	9.7%	9.8%	8.8%	8.0%	6.9%	5.9%	5.4%	5.2%	5.0%	4.4%
Scenario 3	9.7%	10.0%	9.2%	8.5%	7.5%	6.4%	5.9%	5.7%	5.5%	4.8%

Figure 3-9 10-year projection - debt services ratio

3.6.5 Rates & annual charges coverage ratio

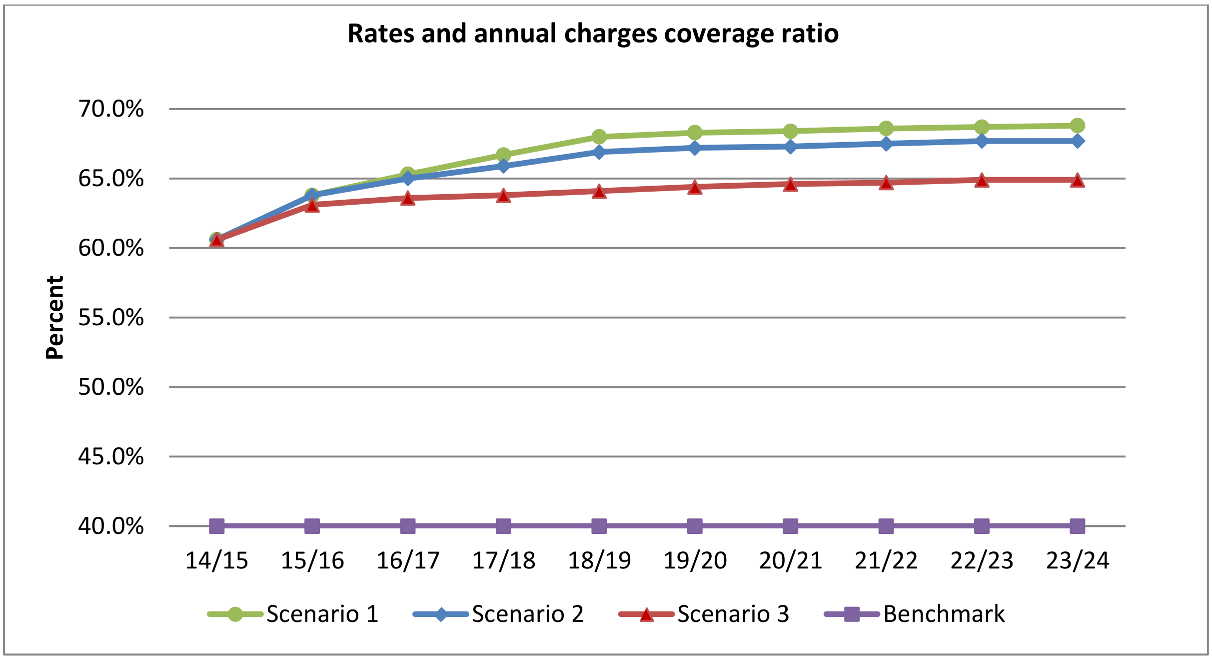
What is being measured: The Council's reliance on rates revenue to fund operations

Calculation: Rates and annual charges as a percentage of operating revenue

Target: Greater than 40% = Sustainable

Comment:

- **Scenario 1:** By 2023-2024 it is projected that the Council will have a sustainable rates and annual charges coverage of 68.8% due to the increased revenue from the special variation application
- **Scenario 2:** By 2023-2024 it is projected that the Council will have a sustainable rates and annual charges coverage of 67.7%, due to the increased revenue from the special variation application
- **Scenario 3:** By 2023-2024 it is projected that the Council will have a sustainable rates and annual charges coverage of 64.9%
- **Generally:** As rates and annual charges provide over half of the Council's revenue, the Council will have a high degree of certainty that this source of funding will be maintained over the next 10 years.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	60.6%	63.8%	65.3%	66.7%	68.0%	68.3%	68.4%	68.6%	68.7%	68.8%
Scenario 2	60.6%	63.8%	65.0%	65.9%	66.9%	67.2%	67.3%	67.5%	67.7%	67.7%
Scenario 3	60.6%	63.1%	63.6%	63.8%	64.1%	64.4%	64.6%	64.7%	64.9%	64.9%

Figure 3-10 10-year projection - Rates and annual charges coverage ratio

3.6.6 Rates, annual charges, interest & extra charges outstanding percentage

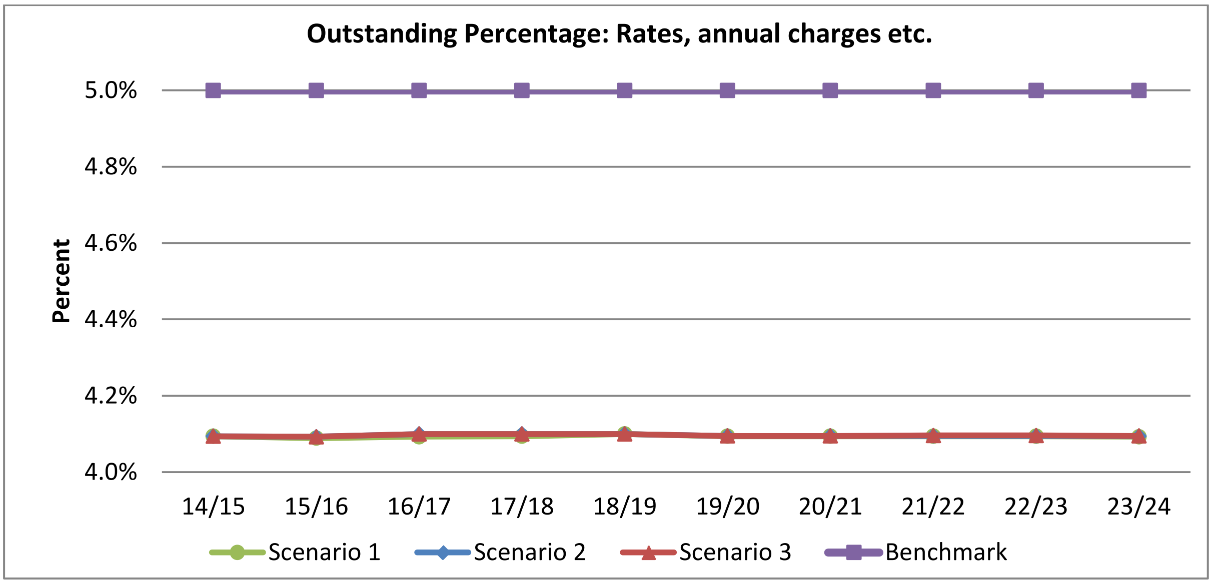
What is being measured: The impact of uncollected rates and annual charges on the Council's liquidity and the adequacy of debt recovery efforts

Calculation: Outstanding rates and annual charges as a percentage of collectible rates and annual charges

Target: Less than 5%

Comment:

- **Scenario 1:** Notwithstanding the increase in rates due to the special variation to rates application, this ratio remains under the 5% benchmark at around 4.1%
- **Scenario 2:** Notwithstanding the increase in rates due to the special variation to rates application, the ratio remains under the 5% benchmark at around 4.1%
- **Scenario 3:** For the life of the *LTFP*, this ratio remains under the 5% benchmark at around 4.1%
- **Generally:** Each result is a reflection of efficient credit management practices that ensure the Council's cash liquidity



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Scenario 2	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Scenario 3	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%

Figure 3-11 10-year projection - Rates, annual charges, interest & extra charges outstanding percentage

3.6.7 Building & infrastructure renewals ratio

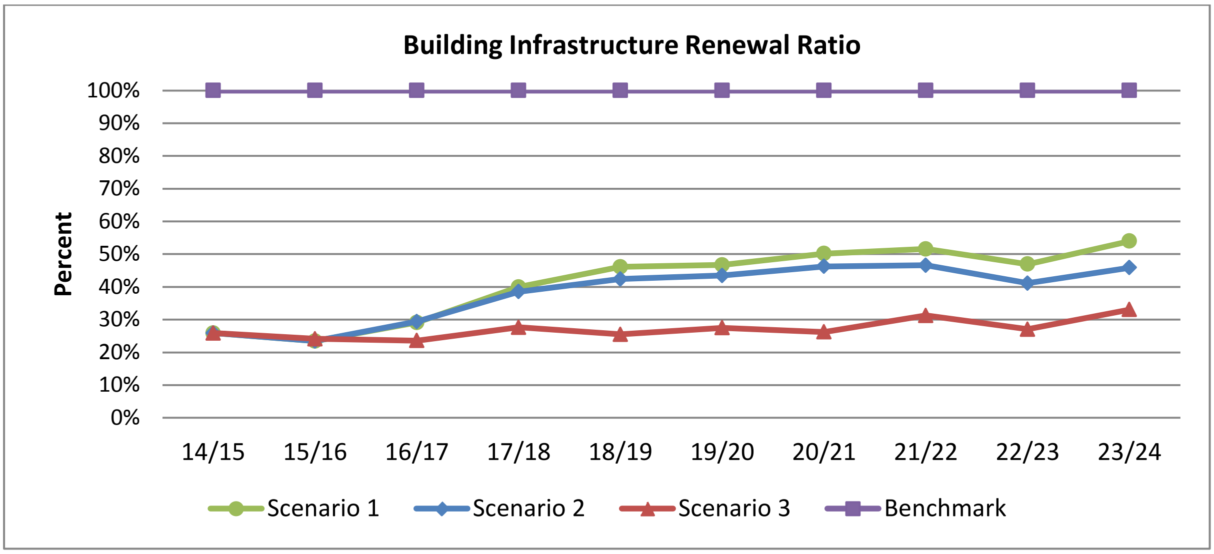
What is being measured: The Council's ability to fund the renewal of road, drainage and building assets relative to the rate at which these assets are depreciating

Calculation: Asset renewal expenditure divided by depreciation expenditure

Target: Greater than 100% = Good | Less than 100% = Unsustainable

Comment:

- **Scenario 1:** This ratio indicates that the Council is significantly underfunding asset renewal, though to a lesser extent than under Options 2 and 3. By 2023-2024 it is only renewing its assets at 54% of the required expenditure.
- **Scenario 2:** This ratio indicates that the Council is significantly underfunding asset renewal, though to a lesser extent than under Option 3. By 2023-2024 it is only renewing its assets at 46% of the required expenditure.
- **Scenario 3:** This ratio indicates that the Council is significantly underfunding the renewal of road, drainage and building assets and by 2023-2024 it is only renewing its assets at 33% of the required expenditure. As a result, significant deterioration in the condition of built assets will occur with resulting reactive closure/removal if they breakdown or are unsafe.
- **Generally:** This ratio indicates the impact the proposed special variation to rates options has on these assets, though asset renewal continues to be underfunded under all options. To ensure the Council can responsibly manage its assets, it must implement all the actions within its financial strategy.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	26%	23%	29%	40%	46%	47%	50%	52%	47%	54%
Scenario 2	26%	23%	29%	39%	42%	43%	46%	47%	41%	46%
Scenario 3	26%	24%	24%	28%	25%	27%	26%	31%	27%	33%

Figure 3-12 10-year projection - Building and infrastructure renewal ratio

3.6.8 Asset renewals ratio

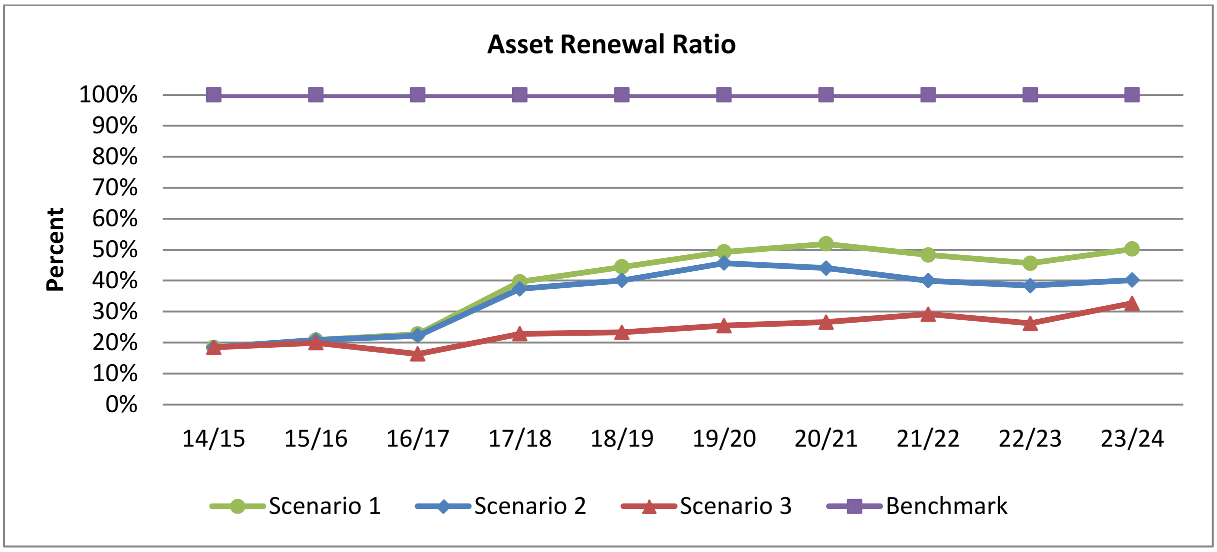
What is being measured: The Council's ability to fund the renewal of ALL built assets relative to the rate at which these assets are depreciating

Calculation: Asset renewal expenditure divided by depreciation expenditure

Target: Greater than 100% = Good | Less than 100% = Unsustainable

Comment:

- **Scenario 1:** This ratio indicates a significant underfunding of asset renewal, though to a lesser extent than under Options 2 and 3. By 2023-2024 renewal is only at 50% of the required expenditure. The ratio under this scenario is still less than the target of 100% which means that the Council still requires investment in efficiency and cost saving strategies to achieve the target. The Special Variation Option 1 provides the Council with a solid plan for financial sustainability which will improve this ratio over a 20 year period.
- **Scenario 2:** This ratio indicates a significant underfunding of asset renewal, though to a lesser extent than under Option 3. By 2023-2024 renewal is only at 40% of the required expenditure.
- **Scenario 3:** This ratio indicates that the Council is significantly underfunding the renewal of built assets and by 2023-2024 it is only renewing its assets at 33% of the required expenditure. As a result, significant deterioration in the condition of built assets will occur with resulting reactive closure/removal of facilities if they breakdown or are unsafe.
- **Generally:** This ratio indicates the impact the proposed special variation to rates options has on all built assets, though asset renewal continues to be underfunded under all options. To ensure the Council can responsibly manage its assets, it must implement all the actions within its financial strategy. The fluctuations in the ratio from year to year are represented by the special variation expenditure being shifted between renewal expenditure and new/upgrade/maintenance /operational expenditure.



	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	18%	21%	23%	40%	44%	49%	52%	48%	46%	50%
Scenario 2	18%	21%	22%	37%	40%	46%	44%	40%	38%	40%
Scenario 3	18%	20%	16%	23%	23%	25%	27%	29%	26%	33%

Figure 3-13 10-year projection - Asset renewals ratio

3.7 Key planning assumptions, revenue and expenditure forecasts

The *LTFP* has been prepared on a 10-year basis from 2014/2015 to 2023/2024. The *LTFP*'s first year uses the 2014/2015 adopted budget as its starting point. The following years are derived through a number of external planning and internal assumptions that are used to project revenue and expenditure budget allocations over the next nine year period.

Each of the assumptions listed below include a brief description of the revenue or expenditure item, the source of the assumption and the external influences that come to bear on these assumptions where relevant.

A number of one-off or recurring adjustments have also been included in the *LTFP*. Where relevant, a brief description of these adjustments is also included.

The *LTFP* financial statements should be read with reference to the assumptions and adjustments listed in the sections that follow, which were utilised in the Council's financial modelling. Note that variation in actual prices and costs to Council due to uncontrollable external events will affect Council's financial projections. The extent of this impact will depend on the size of the revenue or expenditure assumption, the extent of variation, and the degree to which Council is able to mitigate the variation.

Council will review its assumptions and adjustments at least annually and analyse the impacts of these changes. Significant changes will be addressed as they become known. Additionally, the financial impact of some of these events are further explored through the various scenarios and sensitivity analysis contained within this *LTFP* document.

3.7.1 Planning assumptions

The *LTFP* is based on assumptions relating to Population and Socio-economic factors such as household income and urban growth that are largely outside the control of the Council. Details of these assumptions are set out *Part 2 – City Context.* Assumptions relating to economic trends are discussed here.

3.7.2 Inflation (Consumer Price Index) forecasts

The projected inflation rate of 3% has been taken into consideration when determining appropriate income and expenditure increases to ensure that the Council's projected budget amounts reflect movements due to inflationary increases. In determining the inflation forecast, the Council has used the Reserve Bank of Australia and National Australia Bank estimated CPI forecasts. The inflation assumption has been applied across discretionary revenue and expenditure budget allocations where specific data modelling or specific internal assumptions cannot be determined or where the amounts are determined as immaterial (e.g. Contributions Income, Discretionary Fee Income, Other Revenue and some Other Expenditure budget allocations).

3.7.3 Interest rate movements

Market Interest rate assumptions apply for both investment income and borrowing cost projections.

For investment income projections, Council's interest income rates and returns are based on anticipated cash holdings, Reserve Bank of Australia forecast 90-day bank bill rates and Council's investment strategy and policy. The Council's anticipated cash holdings are drawn from projected revenues and expenditures and anticipated internal and external restricted cash reserve balances. These will fluctuate over the life of the *LTFP*. It is anticipated that the average annual portfolio over the 10 years will be in the vicinity of $20-24 million and on the average the Council will earn around $1.4 million in interest income per annum over the 10 years.

For borrowing costs projections, the Council's interest expenditure rate movements are based on loan terms and conditions for existing loan commitments and the Reserve Bank of Australia cash rate forecasts, plus a retail bank margin. Rates of 5.22% per annum over five and 15-year loans have been applied to any of the Council's current borrowing commitments. The Reserve Bank of Australia's cash rate forecast has been used to determine the projected rate of any future borrowings.

3.7.4 Revenue Forecasts

In considering the Council's likely revenue that will be available to meet our community's long-term service needs and funding priorities, the Council's Long Term Financial Planning process considers each component of the Council's revenue and funding base including:

- Rates and annual charges
- Fees and charges
- Grants and subsidies
- Borrowings
- Cash Reserves

LTFP revenue projections over the 10 years of the plan have been based on current knowledge on revenue indices, Australian and NSW Government funding indications, historical trend analysis, and through consultation with relevant stakeholders.

As noted earlier, a key action within the adopted *Six Strategies for Financial Sustainability* is the proposed review of the Council's existing revenue strategies, to ensure revenue is maximised in an equitable, as well as a business-like manner.

Rates & annual charges

Income from rates and annual charges is a major component of the Council's total revenue base ($60 million or 49% of total revenue sources for 2014/2015). The *Resourcing Strategy Part 2 - Section 2.9* includes an assessment of the community's capacity to pay rates and whether there is potential for changes in that capacity. This assessment considered relevant socio-economic indicators, and our rating position in comparison to other councils.

The findings of the comparative council study suggest that Blue Mountains ratepayers have the capacity to pay higher rates based on the following conclusions summarised in *Table 3-9.*

Table 3-9 Capacity of Blue Mountains ratepayers to pay higher rates

Evidence of capacity to pay	BM LGA is among the top 20% of least disadvantaged LGA's (based on SEIFA IRSD ranking)	Low unemployment rate (4.9%) in comparison to State, National, Greater Sydney and Rest of NSW averages	Weekly household income ($1270) above the NSW ($1237) and national ($1234) average
	Average land values are lower than that of neighbouring Hawkesbury LGA ($305,124), which has similar socio-economic characteristics	Mortgage stress is equivalent to the NSW average (10.5%), but much lower than other Sydney Metropolitan councils	Low rental stress (8.4%) compared to NSW average (11.6%)
	Completed rating reform has provided a fairer rating system	Whilst the proportion of household income spent on rates by Blue Mountains ratepayers is relatively high (1.93%), it is less than other council areas who have SEIFA index of disadvantage greater than ours	Very high level of rate recovery and very low number of financial hardship applications

The community's willingness to pay has been assessed across the three rating Options following the community engagement on *Resourcing our Future*.

It should be noted, that none of these rating options propose to fully address the infrastructure backlog as the level of funding required is likely to be beyond the capacity of our community to pay. The financial scenarios therefore offer the community the opportunity to determine the right balance between how much they wish to pay for services through rating options against the extent to which they wish the Council to implement its other financial strategies, particularly *Strategy 5 – Review and Adjust Services*.

Rates (rate peg, rate growth and rating funding options)

Rates revenue assumptions include increases for rate peg, ratepayer growth and special variations.

Table 3-10 highlights the *LTFP's* annual % increases - not the greater cumulative percentage impact, which is detailed earlier.

Table 3-10 10-yr forecast - Rating options

Income	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Rating- Option 1	3.15%	9.75%	9.75%	9.75%	3.15%	3.15%	3.15%	3.15%	3.15%
Rating- Option 2	3.15%	7.55%	7.55%	7.55%	3.15%	3.15%	3.15%	3.15%	3.15%
Rating- Option 3	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%

It should be noted that following the recent reform to the Council's rating structure (see *Section 2.8.1*); the current structure is now simple, fair, broadly uniform and legislatively compliant. As a result of this reform, a fair and equitable rating platform has been established.

The *LTFP* projects the rate peg to average 3% per annum over the 10 years of the plan, given historical rate pegs, recent reductions in the rate peg and indications of future rate pegs.

Ratepayer growth is limited and fluctuates each year for the Council. The *LTFP* projects a conservative 0.15% per annum increase in rateable properties and this equates to an estimate of around 50 additional rateable properties per annum.

Environment Levy

Under Options 1 and 2 the Environment Levy is proposed to be reinstated and continued on a permanent basis. Under Option 3 the Environment Levy expires and is not reinstated works that are carried out now under the Environment Levy would need to be supported to a lesser extent by the general rates paid by rate payers.

The Environment Levy has been in place since 2005 to generate additional revenue required for restoration, protection and management of the over 10,000 ha of natural bush land and the waterways that the Council is responsible for looking after. This Levy is due to expire in June 2015. The Levy costs the average ratepayer around $43 per year and provides around $1.5 million annually for environmental protection and restoration projects across our City. The proposed allocation of the environment Levy is shown in *Table 3-11.*

Table 3-11 Proposed allocation of the Environment Levy

Row Labels	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	Total 2015-2024	Total 2015-2019
Natural Environment	**1,042,950**	**1,074,275**	**1,106,200**	**1,139,375**	**1,173,700**	**1,208,750**	**1,245,100**	**1,282,425**	**1,321,025**	**10,593,800**	4,362,800
Maintenance	709,350	730,700	752,500	775,000	798,300	822,150	846,950	872,300	898,550	**7,205,800**	2,967,550
Operating	333,600	343,575	353,700	364,375	375,400	386,600	398,150	410,125	422,475	**3,388,000**	1,395,250
Sport & Recreation - Natural Area Visitor Facilities	**529,350**	**544,925**	**561,500**	**578,325**	**595,500**	**613,550**	**631,800**	**650,875**	**670,475**	**5,376,300**	2,214,100
Maintenance	223,700	230,200	237,200	244,400	251,600	259,300	266,900	275,000	283,300	**2,271,600**	935,500
Operating	57,250	58,925	60,700	62,525	64,400	66,350	68,300	70,375	72,475	**581,300**	239,400
Renewal	248,400	255,800	263,600	271,400	279,500	287,900	296,600	305,500	314,700	**2,523,400**	1,039,200
Water Resource Management	**99,600**	**102,600**	**105,700**	**108,800**	**112,100**	**115,400**	**118,900**	**122,500**	**126,100**	**1,011,700**	416,700
Maintenance	99,600	102,600	105,700	108,800	112,100	115,400	118,900	122,500	126,100	**1,011,700**	416,700
Grand Total	**1,671,900**	**1,721,800**	**1,773,400**	**1,826,500**	**1,881,300**	**1,937,700**	**1,995,800**	**2,055,800**	**2,117,600**	**16,981,800**	**6,993,600**

Annual Charges – Domestic waste

Waste services are Council's single biggest annual cost. In 2013-14 in the order of $20 million, excluding infrastructure improvements was spent on water services. This includes almost $2.9 million in payments to the NSW Government for its Waste Levy in relation to local waste going to Council owned and operated facilities.

The Council has recently been advised that the Waste Levy will be increased from $53.90 per tonne of waste to landfill in 2013-2014 to $65.40 per tonne in 2014-2015. The Council's 2014-2015 budget has made provision for this based on approximately 46,700 tonnes of material being handled at the Katoomba and Blaxland Waste Management Facilities, equating to approximately $2.9M required to be paid to the NSW Government. The Council anticipates continuing to reduce the amount of waste going to landfill to assist in managing this increase.

The Waste Levy is described as an economic lever used in NSW to reduce waste to landfill and encourage recycling. The calculation of the Waste Levy rate is prescribed in the Protection of the Environment Operations (Waste) Regulation 2005.

Council has previously raised this issue with the NSW Government as it considers this tax on residents and businesses equating to $2.9M in 2014-2015, as an additional and unaffordable expense for our community. This is especially the case when the Council and its ratepayers are self-sufficient in the provision of resource recovery and waste management infrastructure and services with a strong incentive to reduce waste to landfill to lengthen the landfill life. Given the other range of services that ratepayers expect from their rates and other cost shifting, the Waste Levy is considered poor value for money. This $2.9M impost prevents further investment in other critical priorities and risk matters within the City.

A key financial challenge is the high cost of providing waste services to our low density, geographically widespread community compared to other more densely populated and compact local government areas. Consistent with the Council's *LTFP*, this challenge is proposed to be addressed in the Council's Draft Waste Strategy through the following strategies:

- Improved asset management and operations at the Waste Management Facilities and associated waste service activities through efficient, value for money business practices.
- Implementation of a Waste Service Review to ensure continued value for money and identify potential for service adjustment, including opportunities to reduce fixed costs.
- Seek suitable Australian and NSW Governments funding opportunities and further regional partnerships with other councils, organisations, and community and business sector for best value for money contracts.

All residential ratepayers pay a Domestic Waste Management charge which is calculated so as to not exceed the reasonable cost to the Council, as is required under the *Local Government Act*. The basis of the charge is the *LTFP* assumption of a 5% per annum increase in the costs of providing waste and recycling collections, educational programs, booked bulky waste and kerbside chipping, landfill remediation costs, provisions for major plant replacements and a portion of tip operational and maintenance costs

The *LTFP* 5% projection is based on historical trends, advice from the Council's Environmental Sustainability Branch and trends in domestic waste contract expenditure.

Fees & charges

Council has the ability to raise revenues through the adoption of a fee or a charge for services or facilities. Some of the services provided by the Council are offered on a full or part cost recovery basis under the application of the 'user pays' principle. Many of the Council's other services are provided either free of charge (in recognition of the public good principle), as a fee determined by statutory requirements or at a commercial rate to produce an acceptable level of profit.

The fees and charges that Council can charge are split into two categories:

A. Regulatory fees

These fees are generally determined by NSW Government Legislation, and primarily relate to building, development or compliance activities. The Council has no control over the calculation and any annual increases of these fees and charges.

Regulatory fees have tended to have large fluctuations and to be heavily subsidised by the Council due to the constraints placed on these fees by external regulatory bodies. Regulatory fees on the average, have achieved a growth of around 1% (far below CPI) and this trend is expected to continue over the term of the *LTFP*.

B. Discretionary fees

Council has the capacity to determine the charge or fee for discretionary works or services, such as the use of community facilities and services.

The Council does not generate a significant amount of income from discretionary fees. This is primarily a result of the need to balance revenue with the need to provide affordable and equitable services to residents, for example, the hire of community facilities and the use of sporting facilities.

Approximately 50% of discretionary fees are generated from Council operated leisure centres. Based on historical trends and advice, fee income is expected to increase at no more than the rate of inflation, assumed at 3% over the 10 years of the plan.

Fees and charges are reviewed on an annual basis in conjunction with the preparation of the annual budget. Detailed user fees and charges and the general principles under which Council sets its fees and charges are contained in Council's *2014/2015 Fees & Charges Schedule* included as part of the *Operational Plan 2014/2015*. The Council will continue its review of the fees and charges policy as an element of *Strategy 4 – Increase Income*.

Grants & contributions

Council receives grants from the Australian and NSW Governments. These are either discretionary or non-discretionary. The majority of grants provided to Council are for specific purposes, such as infrastructure maintenance, provision of community services and environmental programs. Generally the funding received is less than the total cost of the works/services being provided. Typically, it is often a condition of the grant funding that Council provides matching funding.

A. Financial Assistance Grant

The largest single source of Council's grants revenue is the Financial Assistance Grant. This is a general purpose grant and is allocated to councils on a formula basis that has regard for a range of factors such as population, quantum of infrastructure maintained and the relative disadvantage between councils. In general, the total funding available increases each year in line with CPI and population growth.

The FAGs grant is used to maintain a wide range of infrastructure including local roads, bridges, recreation facilities, libraries, cultural facilities and deliver a variety of other services to our community at standards they expect and deserve. Up until the 2013/2014 allocation the Council had seen an increase in its financial assistance grant of 1% above inflation for several years.

The 2014/2015 Australian Government Budget includes a proposal to stop the annual increase to the Financial Assistance Grant for three years from 2014/2015 to 2016/2017. It also reduces the allocation to NSW in each of these years and a proportionate reduction has been assumed for this Council. As shown in *Table 3-14*, the proposed indexation freeze on the Grant means revenue received from the Grant will remain at $8.2 million per annum until 2017/2018. This will have a $253,000 impact on the Council's 2014/2015 budget, and in subsequent years, we will lose revenue of $620,000, $1,003,000 and $1,037,000 in the years 2015/2016, 2016/2017 and 2017/2018 respectively. This is a total of $2.9 million over this period of four years. The indexation freeze also impacts revenue into the future since the foregone revenue will never be recouped, leading to an ongoing loss of revenue of over $1 million per annum from 2017/2018.

Table 3-14 Extent of the 2014 Australian Government budget impact on the Financial Assistance Grant

Year	Original Expectation (4%)	2014 Australian Government Budget Reduced FAGs	Loss over 4 years	2014/2015	2015/2016	2016/2017	2017/2018
2013/2014 - Current Year	8,268,335	8,268,335	0				
2014/2015 - NO Indexation	8,536,000	8,283,421	(252,579)	(252,579)	(262,682)	(273,189)	(284,117)
2015/2016 - NO Indexation	8,877,440	8,257,363	(620,077)		(357,394)	(371,690)	(386,558)
2016/2017 - NO Indexation	9,232,538	8,229,934	(1,002,603)			(357,724)	(366,676)
2017/2018 - Indexation Reinstated	9,601,839	8,564,489	(1,037,350)				0
Totals	**44,516,152**	**41,603,543**	**(2,912,609)**	**(252,579)**	**(620,077)**	**(1,002,603)**	**(1,037,350)**

Over the 10 years of the *LTFP*, the Australian Government budget announcement of cuts to FAG funding will result in $9 Million lost revenue for the Council. To fund this reduction in projected revenue the Council will have to reduce its services to the same magnitude. These offsetting reductions have been included in the *LTFP,* although a decision final decision from the Australian Government is pending.

From 2017/2018 increases are based on the Office of Local Government circular on the financial assistance grant total for the State, which states a 4% increase in 2017/2018.

B. Special purpose grants

Special purpose grant income is generally in decline and the annual increase is less than CPI. Grants should only be accepted where it supports the current operational plan or asset works program, otherwise additional unplanned assets may be created that have ongoing costs for renewal, maintenance, cleaning, etc., that are not funded and other operational and capital projects that meet the strategic direction chosen by the Council may be delayed. The *LTFP* assumes that other grants will increase at 1.5% per annum.

The Family Day Care Childcare Benefit has been assumed in the *LTFP* to have no increase from 2014/2015 and this revenue stream is directly matched to Family Day Care expenditure projections.

C. Section 94 and 94A development contributions

Development contributions are contributions made to the provider of local public facilities by those undertaking development approved under the *Environmental Planning and Assessment Act 1979* (EP&A Act). Contributions may be in the form of money, dedication of land or some other material public benefit (or a combination of these).

The Council's *Developer Contributions Policy (s94A)* seeks 0.5% or 1%, depending on the Policy thresholds, of the proposed cost of carrying out a development (*Table 3-15*). These funds help provide public infrastructure, amenities and services that are associated with new development in the City.

Table 3-15 Section 94A contribution thresholds

Proposed Cost of the Development	Levy Percentage
$0 - $100,000	0%
$100,001 - $200,000	0.5%
More than $200,000	1.0%

In addition to the s94A Contributions Policy, the Council has a 'Section 94 Plan' that relates to a few discrete development precincts.

Both s94A and s94 Contributions are held as an externally restricted asset until they are spent for the purposes designated in the adopted contribution plans. The level and timing of contributions fluctuate according to a variety of factors including economic growth and the level of development activity in the Local Government Area.

Due to relatively stagnant population and growth, developer contributions provide a very limited source of funding for the Council. As at 31 May 2014, the Council has externally restricted asset reserve balances of approximately $35,000 and $156,000 from s94 and s94A contributions, respectively.

Our old Section 94 plan brings in limited funding. However, the *LTFP* assumes that our new s94A plan will raise around $400,000 per annum, noting that the actual amount received in any given year may vary significantly from this estimate.

D. Capital grants and contributions

A grant of $9.5M from Australian Government for the Blue Mountains Theatre and Community Hub facility upgrade at Springwood has been included over the 2013/2014 and 2014/2015 years. The total project cost is $17.9M with $6M from Local Infrastructure Renewal Program Loan Funding, which will be fully repaid upon receipt of the proceeds of property sales with the balance coming from other Council Reserves and contingencies.

The only other projected capital grant revenue is from Roads and Maritime Services (RMS) for road works. This is a matching grant as the receipt of this revenue is reliant on continuing the Council's funding of road renewal. It has been assumed that the amount received in future years will be the same as current funding.

E. Other contributions

Council receives a number of other financial contributions. The most significant of these are for road and footpath restoration works and other RMS transport infrastructure contributions. The *LTFP* assumes these will increase at 3% pa in line with the rate peg.

Table 3-16 summarises the annual planning assumptions for grants and contributions.

Table 3-16 Grants and contributions

Income	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Financial Assistance Grant	-	-	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Special Purpose Grants	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Contributions	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Pensioner subsidy

The pensioner rate subsidy is provided by the NSW and Australian Government to offset the cost of the mandatory $250 pensioner rate rebate that the Council provides to eligible pensioners.

The Australian Government is proposing to withdraw their 5% contribution to this pensioner rate subsidy which would mean that the Council will have a budget shortfall of $80k per annum. The State Government legislatively requires councils to provide pensioners with a rebate of no less than $250 on their rate bill. This costs the Council $1.6M per year. The State Government provides Council with a 50% subsidy, with the Australian Government providing, up to this point, a 5% subsidy. The Council is aware that the State Government has made a commitment to cover the 5% subsidy cost shortfall in 2014-2015.

Borrowings

Over the past decade, the Council has used borrowings as a source of funding for its Asset Works Program to satisfy community needs, as well as for a number of key major projects in order to maintain a vibrant City and support local economies. While the Council's debt service ratio financial indicator (i.e. the degree of revenue from continued operations committed to the repayment of debt) is within industry benchmark, its financial planning has identified that it has reached its capacity to incur new debt. Therefore, a strategy has been included in the Council's adopted *Six Strategies for Financial Sustainability* to manage borrowings responsibly (Strategy 3) by minimising future borrowings and reducing existing debt.

Implementing this Strategy involved replacing current annual borrowings to fund the Asset Works Program with revenue from the continuation of the special rate variation for infrastructure (Stage 1). Where possible, every opportunity will be taken to reduce existing debt from any surplus operational funds. The debt servicing cost savings from reducing the debt will be directed to priority asset maintenance and renewal works.

The *LTFP* includes $4.579M of proposed loans in 2014-2015 comprised of:

- $3.054 million in relation to approved Asset Works deferred from 2013/2014 into 2014-2015 ($2,475,000 Blaxland Waste Management Facility and $579,000 Lawson Town Centre additional/upgraded infrastructure to support the new shopping precinct)
- $1.525 million balance of proposed loans are 2014-2015 Asset Works (Blaxland Waste Management Facility Landfill Stage 3 – New Waste Cell which will be repaid by waste fee income, $525,000 Katoomba and Blackheath Caravan Park upgrades contingent on preparation and approval of comprehensive business case).

In 2015/2016 and 2016/2017 additional loans of $240,000 and $135,000 respectively for Katoomba and Blackheath Caravan Park upgrades are also included, contingent on preparation and approval of comprehensive business cases.

In 2017/2018 a loan for $2M has been included for the next stage of the Blaxland Waste Management Facility.

The Council's borrowing program will result in a manageable debt service ratio, which is below the industry benchmark.

Investment revenues

Interest revenue earned by the Council varies, largely based on the total amount held in Council's Investment Portfolio. Council's *LTFP* projects minimal future movements in the amount of Council's Investment Portfolio since, although there are some fluctuations within certain reserves overall, the balance is projected to be maintained at the current 2014/2015 portfolio balance of around $20-24 million.

Interest Revenue is also subject to external factors such as monetary policy decisions, and economic and investment market conditions. Over the longer term, economic conditions can vary considerably which, in turn, can affect interest rates. In times of economic expansion, rising interest rates can be an effective way of reducing economic growth, thereby lowering inflationary pressures. Conversely, during economic downturns the lowering of interest rates can have a positive impact on economic growth.

Over the past 10 year period the Official Cash Rate has varied from a minimum of 2.5% to a maximum of 7.25%. The average has been 4.84% over this period. In preparing long-term interest revenue projections, the Council has researched available economic data and projections from a variety of sources, in addition to seeking advice from external investment advisers. Based on this research and having regard for the Council's conservative investment policy, the *LTFP* model anticipates that the average annual portfolio over the ten years will be in the vicinity of $20-24 million. On average, the Council will earn around $1.4 million in interest income per annum over the 10 years.

Continual monitoring of projects and updating of the index in the *LTFP* model will occur on a regular basis, having regard for likely future changes in economic conditions.

Cash reserves and restricted assets

The Council has a number of cash reserves which are restricted either through a legislative requirement (externally restricted) or through a Council decision (internally restricted).

The establishment and funding of cash reserves is a financial management strategy to provide funds for future expenditure that could not otherwise be financed during a single year without having a material impact on the Council's budget. For example, local government elections occur every four years, so the Council sets aside one quarter of the estimated cost of the election each financial year.

The balance of Cash Reserves as at 30 June 2013 was $37.6 million comprised of $10.6 million in Externally Restricted Reserves and $23.9 Million in Internally Restricted Reserves and $3.1 million in Unrestricted Cash.

The Council's restricted and unrestricted reserves are reflected as operational and capital funding sources in the *LTFP*.

Other revenues

Other revenues include effluent contract revenue, operations recycling revenue and rental income centres. Revenue from these sources is difficult to predict as they can be susceptible to a range of external factors such as prevailing economic conditions, population growth and changing demographics. Other revenue is projected to increase at 3% per annum based on historical trends in these categories of income and on advice from relevant senior staff managing these businesses.

Sale of plant and property

The sale of property assets is intended to provide a minor contribution to the revenue raising plans of the Council. The anticipated net revenue from the sale of non-strategic assets is estimated at $5.5 million over the next three years. The net revenue from the sales in 2014/15 will be used to fund the repayment of loans associated with the Blue Mountains Theatre and Community Hub Facility – Springwood project.

Profit on sale of assets

Current profits on sales are projected to increase each year at the same rate as CPI. Other fluctuations in sales of assets are based on projections of the Council's Property Disposal Investment Plan (*Table 3-17)*. These proceeds are planned to be used to fund further property development to enable future sales, additional asset renewal, and the majority of the loan payments for the Blue Mountains Theatre and Community Hub Facility – Springwood.

Table 3-17 Property Disposal Investment Plan - profit on sale of assets

Property Investment Fund	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Opening Balance 000's	$1,835	$1,113	$ 175	$ 705	$1,614	$3,233	$3,536	$3,165	$2,783	$ 2,390	$ 1,985
Property Sales	$ 916	$1,888	$1,183	$1,547	$2,230	$ 865	$ 182	$ 182	$ 182	$ 182	$ 182
Development Costs	($1,624)	($2,200)									
Expenses	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)	($69)
Loan Repayment		($590)	($590)	($590)	($590)	($590)	($590)	($590)	($590)	($590)	($590)
Interest Revenue	$110	$67	$11	$42	$97	$194	$212	$190	$167	$143	$119
Asset Renewal	($55)	($33)	($5)	($21)	($48)	($97)	($106)	($95)	($83)	($72)	($60)
Closing Balance	1,113	175	705	1,614	3,233	3,536	3,165	2,783	2,390	1,985	1,567

Commercial activities

The Council delivers a number of services that are classed as commercial activities as these services are delivered with the main intention of generating surpluses from their operations. Such activities are generally considered as non-core activities and do not directly relate to meeting community service obligations. The following services have been defined as commercial activities:

- Caravan parks (at Katoomba and Blackheath)
- Commercial property portfolio (approximately 20 buildings leased as residential and commercial properties with some containing multiple shops)
- Effluent collection Service (2 Tankers for effluent removal)
- Roads and Maritime Service (Agent for RMS at BMCC Katoomba Administrative Centre)

The *LTFP* provides for the Council to continue to maximise ongoing commercial returns through commercial activities and in doing so the Council's commercial activities will focus on:

- Developing and implementing business strategies and plans for commercial activities
- Achieving net revenue targets specified in business plans
- Maintaining/improving service operations and facilities to ensure competitiveness

The achievements against specific targets will be outlined in the commercial in-confidence business plans and reports to the Council. Commercial activities currently generate approximately $3.0 million pa and the *LTFP's Strategy 4 – Increase Income* aims to strengthen the Council's financial sustainability through maximising net revenue from each of these commercial activities wherever there are opportunities for future income and economic growth.

3.7.5 Expenditure forecasts

The *LTFP* considers an array of information on ongoing operational and capital expenditures that are incurred as a consequence of meeting the community's expectations for the future as determined in the Council's Community Strategic Plan – *Sustainable Blue Mountains 2025.*

Balancing community expectations and uncertainty of future expenditure forecasts is one of the most challenging aspects of the Council's *LTFP*.

In developing the Council's expenditure forecasts, the Council has considered the Council's ongoing commitments in alignment with the objectives of the Council's Community Strategic Plan. Relevant sources of information on commitments have included the asset management strategy, previous management plans and repayment schedules for long-term borrowings. Not all of the Council's expenditure trends will continue as they have in the previous years since the *LTFP* includes three options for *Resourcing our Future,* and each option will raise a different level of funds and provide a different level of service.

It is important to understand that the annual fluctuations in prices and quantities of all expenditure items inform the *LTFP* expenditure forecasts but the annual adjustments applied in the *LTFP* are an average of the expected increases over the 10 years. Additionally, annual fluctuations for individual expenditure items, both increases and decreases, effectively average out against other expenditure item fluctuations both within an annual period and over the 10-year period.
The *LTFP*'s new expenditure forecasts include complete costings for capital and recurrent expenditures such as operational, maintenance and replacement asset costs over the useful life of the infrastructure item.

The Council's *LTFP* also phases expenditure appropriately across the 10-year term. For example, for the Council's Asset Works Program where projects are completed during the Long Term Financial Plan, the expenditure reflects when specific expenditure for planning, construction, implementation and maintenance is expected to occur.

Employee benefits and on-costs

A significant component of delivering high quality services to the community are the employment costs associated with the establishment and development of a highly skilled and responsive workforce. Some 46% of the current operational expenditure (excluding capital expenditure) is employment costs, which have remained reasonably static over time due to the nature of Council's operations. That said, the actual cost of the workforce continues to increase at a far greater rate than the Council's revenue capability since our rating revenue is constrained to the NSW Government's rate peg.

While a solution would be to simply reduce the size of the workforce, this is highly problematic, as there is a direct correlation between employment costs and service levels. Essentially, any reduction in staff numbers will lead to a reduction in the level of service. Therefore, the key premise of the Council's *Workforce Management Strategy* is to maximise workforce productivity by ensuring a highly safe, skilled and engaged workforce. Such a holistic approach has a significant flow-on effect and leads to a reduction in turnover, workers compensation costs, leave liabilities and absenteeism – all of which impacts positively on both costs and levels of service. (See *Part 5 Workforce Management Strategy* for analysis of this approach).

Pragmatically, this can be best evidenced with the Council's requirement, over recent years, to deliver activities previously provided by other tiers of government, without increasing the overall size of the workforce. As highlighted in the Council's *Workforce Management Strategy*, the factors mentioned above will also produce real savings of significant order.

Employee Costs include the payment of Salary and Wages, Employee Leave Entitlements, Superannuation and Workers Compensation expenses. The primary drivers of increased employment costs are predominately external factors outside the control of the Council; such as, NSW Local Government (State) Award wage increases, Australian Government determined superannuation increases, WorkCover NSW workers compensation costs, sick leave and leave entitlements. These increases in employment costs have been factored into the Council's *LTFP.*

A new Local Government (State) Award has recently been negotiated for the next three years. The new Award provides for the following wage increases: 2.6% at 1 July 2014; 2.7% at 1 July 2015; and 2.8% at 1 July 2016. These increases add approximately $1.0M to the annual wages bill (in today's terms).

The *LTFP* has considered all of the above factors and increased overall employment costs by 4.20% per annum for the average anticipated increases over the 10 years of the plan. Additionally, future adjustments to employment costs have been factored into Council's *LTFP* due to adjustments to service levels in specific areas of Council. Examples include additional staffing for the Blue Mountains Theatre and Community Hub – Springwood, reduced employment costs at our leisure and aquatic centres and adjustments to employment costs both upwards or downwards depending on the results of the community engagement on the three alternative options for resourcing our future.

Resourcing our Future

A critical component of the *LTFP* is the outcome of the three Options for *Resourcing our Future.* The potential impacts of the three Options are considered in the *LTFP,* including the impact on employment resources, which have been identified as follows:

Employment under Option 1: Service Levels Improved

This additional funding will require additional skills and around 30 additional full-time employees over the 10-year period, which is reflected in the LTFP in additional Assets Works Program expenditure. However, through natural attrition the size of the workforce reduces by an average of 3 full time employees a year. Overall, there should be a neutral impact on the size of the workforce.

Employment under Option 2: Services Levels Maintained

This additional funding will require the need for additional skills in the order of 25 full-time employees over the 10-year period, which is reflected in the *LTFP* through additional Assets Works Program expenditure. However, through natural attrition the size of the workforce reduces by an average of three (3) full time employees a year. Overall, there should be a small reduction in the size of the workforce of approximately 5 full time employees.

Employment under Option 3: Services Levels Reduced

The reduction in funding under this option will have an impact on the workforce directly engaged in Environmental Levy work and result in a reduction of approximately eight (8) full time employees immediately. When coupled with the natural attrition of an average three full time employees a year, the overall size of the workforce will reduce by some 38 full time employees over the 10-year period.

In summary, by ensuring we continue to develop a highly skilled, flexible and engaged workforce to respond appropriately to either improving, maintaining or reducing service levels, the Council's *LTFP* financial scenarios are well positioned to resource appropriately in a planned manner.

Superannuation

Council is required to make compulsory employer superannuation contributions on behalf of its employees. The amount of employer superannuation contributions which are payable by the Council increase in line with wages and depend on whether an employee is in an accumulation scheme or a defined benefit scheme. The main difference between each of these schemes from the Council's perspective is the level of contribution the Council is required to make on behalf of each employee.

For employees in the accumulation scheme, the Council is required to make compulsory employer superannuation contributions in accordance with the compulsory employer superannuation contribution limits of the *Superannuation Guarantee (Administration) Amendment Act 2012* (SGC). The SGC has increased the Council's superannuation obligations for all employees from 9.0% to 9.5% from July 2014 and will continue to increase as follows:

- July 2014 – 9.5%
- July 2015 – 9.5%
- July 2016 – 9.5%
- July 2017 – 9.5%
- July 2018 – 10%
- July 2019 – 10.5%
- July 2020 – 11%
- July 2021 – 11.5%
- July 2022 – 12%

These increases are to be met by the employer and will increase the employment costs to the Council. The current annual superannuation cost to Council is approximately $3.25M. While these increases are to be phased in over time, moving to a 12% SGC will increase the Council's overall superannuation bill by approximately $1.0M annually – a 30% increase.

For employees who are in a *Defined Benefit Superannuation* scheme, Council's superannuation contribution is based on a multiple of the employee's salary. In addition to this amount, all NSW councils were initially advised in 2011 that due to the impact of the Global Financial Crisis and the negative effect this had on the financial position of the *Defined Benefit Superannuation* scheme, all councils would be liable for a separate fixed levy payable over a projected 10-year period. For the Council, this levy is approximately $380,000 annually. Recent advice from Local Government Super is that whilst the financial position of the scheme is reviewed on an annual basis, it would be prudent for the Council to budget for this additional levy in the foreseeable future. As such, this additional cost has been incorporated into the *LTFP* and is assumed to continue for the 10-year life of the plan. Should the required contribution vary from this forecast, the *LTFP* will be revised accordingly.

Workers compensation

In June 2012, the NSW Government introduced changes to the *Workers Compensation Scheme* in NSW. While the reforms improved the return to work process, the key driver of the reform is to return the scheme to financial sustainability without large increases in employer premiums.

It is the responsibility of individual organisations to effectively manage their workers compensation costs and injury management processes, the schemes ongoing viability needs due consideration in the context of workforce planning, as any future increases are likely to be substantial and have a major cost impact.

In anticipation of future premium increases, Blue Mountains City Council has undertaken a major review into its workers compensation and injury management processes. This exercise led to the Council being admitted into WorkCover NSW's *Retro-Paid Loss Scheme* in 2011. While participation in this scheme requires a more proactive management approach, it has seen a significant reduction in workers compensation premiums in the order of 60% and is delivering savings to the Council in excess of $1.0 million annually (as depicted in *Figure 3-14* below). This result positions the Council as one of leading councils in workers compensation and injury management processes when compared to other NSW councils, as evidenced in the NSW Council LGSA Survey.

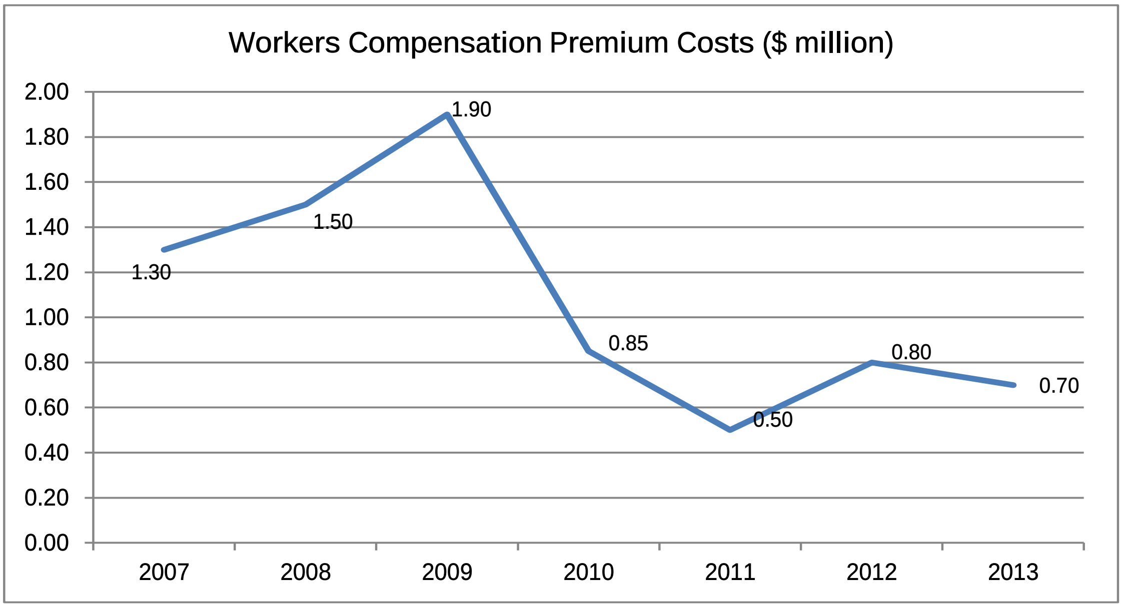


Figure 3-14 Workers compensation premium costs at the Blue Mountains City Council

The Council's *LTFP* projects Workers Compensation expenditure at the same rates as employment cost increases, that is, 4.2%.

Borrowing costs

Current borrowings and additional projected loans have been used to calculate principal and interest loan repayments. Loan repayments peak in 2015/2016 at over $9 million and reduce over the following years as minimal new loans are made and current debt is retired. Interest payments are projected to steadily decline.

The Council has maintained a sound financial position. The *LTFP* has been prepared on the assumption that the Council will continue to reduce debt in the future. As such, no borrowing costs have been included in the financial projections. Should the Council change its policy with regard to maintaining a debt free status, the *LTFP* will be adjusted accordingly.

Council's interest expenditure rate movements incorporate two 10-year infrastructure loans under the State Governments *Local Infrastructure Renewal Scheme* (LIRS). The *Scheme* provides an attractive 4% interest rate subsidy and allows the Council to make use of borrowings to accelerate investment in infrastructure backlogs. Council has subsidised loans of $6.0 million and $4.86 million for the Blue Mountains Theatre and Community Hub – Springwood, and the Blaxland Resource Recovery and Waste Management Facility, respectively.

Council's interest expenditure on loans progressively reduces from $3.9 million in 2014/2015 to $1.6 million in 2023/2024 as the Council continues to implement *Strategy 3 - Manage Borrowings Responsibly.* Furthermore, the Council has implemented an annual review of borrowings, and will endeavour to reduce debt earlier where possible. No new borrowings from 2014/2015 are planned unless:

- The cost of the debt is funded from sufficient income or cost savings generated by the project
- Financially responsible subsidised loan funding is available (e.g. LIRS funding)
- Any proposed new borrowing is supported by a comprehensive business case

- The borrowing relates to deferred asset works carried forward from a prior period as resolved by the Council

Materials & contracts and other expenditure

The Council's materials and contracts and other expenditure includes a broad range of services and expenditures including (but not limited to) advertising, external financial audits, emergency management statutory contributions, utility costs (electricity, water and gas), street lighting, insurances, legal and consultant fees, infrastructure maintenance, cultural services and civic events, cleaning and waste management.

Costs are impacted by many factors such as economic conditions, market competition, and availability, and transport of resources and raw materials.

The *LTFP* projects these costs to increase, on average, over the 10 years of the plan by an annual amount in line with CPI (3%) under Financial Scenarios 1 and 2 where rating income increases. In order to provide balanced cash budget under Financial Scenario 3, Materials & Contracts & Other Expenditure have increased below CPI at 2%. Under Scenario 3 where there is no increase to rates apart from rate peg, expenditure has been constrained to 2% to allow operational funds to be allocated to additional capital expenditure. The assumptions of 3% and 2% apply to all expenditure other than employment and where alternative expenditure forecasts are otherwise noted in the *LTFP (Table 3-18).*

Table 3-18 Materials, contracts and other expenditure assumptions

Expenditure	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Financial Scenario 1	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Financial Scenario 2	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Financial Scenario 3	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

These alternative expenditure forecasts include costs such as electricity, street lighting, Emergency Management Statutory Contributions and other expenditure items like the operational costs of Blue Mountains Theatre and Community Hub – Springwood, which have been indexed at either a higher than CPI rate based on recent trends or other exceptional projection factors. Details of these expenditures are as follows:

A. Electricity and street lighting

Energy costs are an expenditure area where the Council has experienced significant cost increases in previous years. The increases are the result of general increases in energy tariffs along with the introduction of the *Carbon Pricing Mechanism* from 1 July 2012. Additionally increases in the *LTFP* reflect the number of Council provided facilities, such as the new cultural and community facilities at Katoomba and Springwood and a new Katoomba library, which have driven higher energy requirements, even though each of these projects have incorporated energy efficient technologies.

In 2016/2017, the *LTFP* has incorporated a one-off reduction in electricity expenditure to reflect the work that is being undertaken to improve the terms of our electricity contract. The *LTFP* estimates that the Council will save $150,000 in street lighting and $100,000 in other electricity expenditure.

Under Financial Scenario 1 and 2, the *LTFP* projections include additional increases for rapidly increasing electricity and street lighting costs due to tariff increases, increased usage and increased facilities. These include additional expenditure for street lighting starting from $136,000 in 2016/2017 up to $731,000 in 2023/2024. For other electricity expenditure there is an additional $333,000 in 2016/2017 up to $1.27 million in 2023/2024.

B. Emergency management statutory contributions

Another expenditure item which is anticipated to increase at a higher rate than CPI are payments made by the Council to other levels of government such as the rapidly increasing Emergency Management Statutory Contributions. These costs consist of compulsory contributions to the NSW Fire Brigade, Rural Fire Service and State Emergency Services. The *LTFP* projects that these payments will increase annually by an average of 5%. Actual annual contribution increases at times have far exceeded 5% and over the past few years have averaged around 9% per annum. However, the *LTFP* assumes that any significant increase over 5% will require a response from the Council to either advocate to the agencies for costs to be managed within budgets available or the Council will need to make a transparent decision on where funding will come from and which services will be affected.

C. Blue Mountains Theatre and Community Hub - Springwood

Additional operational expenditure has been included for an increase in costs for operating the expanded Blue Mountains Theatre and Community Hub - Springwood. The *LTFP* includes an additional $200,000 in employment costs and an additional $100,000 in operational costs from 2015/2016 and then costs increase in line with other employment and operating costs.

D. Targeted expenditure adjustments

A targeted look at the Council's procurement practices has resulted in reduced expenditure in some areas. Further procurement savings, estimated at $500,000 have been included in 2015/2016 in the expectation of improved contract procurement and includes $250,000 in reduced electricity and street lighting contracts (as mentioned earlier) and $250,000 in estimated fleet procurement savings.

Additionally, to offset the 2014 Australian Government Budget impact on the Council's *Financial Assistance Grant* revenue (discussed earlier in the Revenue assumptions), the Council's *LTFP* includes one-off targeted service review savings of $600,000 in 2015/2016 and an additional $400,000 in 2016/2017. At this stage, adjustments have not been specifically identified with a particular service as the 2014 Australian Government Budget announcement is quite recent and not yet passed by the Government. Any review and adjustment of services will be made transparent through extensive community engagement and only proceeded with by approval from the Council.

In an effort to account for our latest data on the condition of our aquatic centre assets, the *LTFP* includes an expectation that there will be aquatic centre asset failures. The timing of these failures is impossible to predict, however as a prudent and responsible approach the *LTFP* has included associated operational cost savings of $220,000 in 2019/2020 and $120,000 in 2021/2022 to account for these probable events.

3.7.6 Capital expenditure

The Council's 10 year Asset Works Program projections *(Table 3-19)* have been added to the operational capital projections to give total capital expenditure.

Table 3-19-year Capital Expenditure forecasts

Capital Expenditure	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Scenario 1	25,837	8,132	9,105	14,409	15,612	15,716	15,690	15,325	15,631	15,508
Scenario 2	25,837	8,132	8,503	12,931	13,146	13,089	13,079	13,078	13,027	12,938
Scenario 3	25,837	7,943	7,281	10,252	8,377	8,765	8,994	9,449	9,696	10,096

Operational Capital includes Plant and Equipment, Fleet, Information Technology and other small capital purchases. It is projected that these expenditures will increase in line with other expenditure increases as noted above.

The Asset Works Program expenditure matches available funding from capital grants, loans, additional rates from any special variations and specifically allocated operational funding.

Council's Asset Works Program aims to deliver much needed maintenance, renewal and upgrade of infrastructure assets supporting the community, emergency management, the environment and other public infrastructure including roads, town centres and footpaths. For further detail on the Council's 10 year Asset Works Program please refer to *Part 4 – The Asset management Strategy and Policy*.

3.7.7 Depreciation

Projected depreciation costs have been increased for additional capital purchases and reduced for asset sales. Periodic reviews of asset values and useful lives, plus increased asset maintenance to prolong asset lives have been taken into account to show a declining annual depreciation cost in line with how long the Council's assets are made to last given the limited funding available to us.

Depreciation is reducing over the 10 years as more assets are being fully depreciated compared to the level of new depreciable capital expenditure being added over the 10 years of the plan. This trend is reflected in the Asset Renewal Ratio depicted *Section 3.6.8.* The actual depreciation expenditure in future years may be impacted by future asset revaluation methods and timing as stipulated by relevant accounting standards. Council's infrastructure assets have been revalued in accordance with a staged implementation program as advised by the Division of Local Government. The revaluation of Council's assets at fair value is to be undertaken as per the following schedule:

- 2013/14 Financial Year – Land Under Roads
- 2014/15 Financial Year – Roads, Bridges, Footpaths and Drainage
- 2015/16 Financial Year – Community Land, land improvements, other structures and other assets
- 2016/17 Financial Year – Water and Sewerage Assets (only applies to council's responsible for this asset class)
- 2017/18 Financial Year – Operational Land, Buildings, Plant and Equipment

Full revaluations are to be undertaken for all assets on a five year cycle.

3.8 Risk assessment

A risk assessment has been performed on the *LTFP* by examining at a high level the impact of inaccurate projected estimates of operational items and capital expenditure. This risk assessment is largely applicable to all three funding scenarios and has been assessed using the Council's risk matrix *(Figure 3-15).* The severity and frequency of each risk was examined to establish a risk rating for each category. Risk treatments and mitigation strategies were then detailed to identify the best methods to help eliminate and or minimise the potential impacts arising out of the identified risks.

It is important to note that the risk ratings listed below relate only to the inherent risk for each item. Residual risk ratings are determined when the effectiveness of the risk treatments and mitigation strategies are considered.

	LIKELIHOOD				
IMPACT	**Rare (1)**	**Unlikely (2)**	**Possible (3)**	**Likely (4)**	**Almost Certain (5)**
Severe (5)	Moderate	High	Extreme	Extreme	Extreme
Major (4)	Moderate	Significant	High	Extreme	Extreme
Moderate (3)	Low	Significant	Significant	High	Extreme
Minor (2)	Low	Moderate	Significant	Significant	High
Negligible (1)	Low	Low	Low	Moderate	Moderate

Figure 3-15 BMCC Risk assessment matrix

3.8.1 10-Year forward financial plan risk assessment

Risk of Inaccurate Projected estimates of expenditure		Impact	Likelihood	Risk	Risk Treatments / Mitigation strategies
1	Employee Wages	Major	Possible	High	Budget Variation/Adjustment process Industrial Award negotiations Approval from Executive Management Team required for all replacement and new positions.
2	Wages Liability Super % increase to 12% by 2019 Retirement/Exit Liabilities/Entitlement	Major	Possible	High	Budget Variation/Adjustment process Manage leave entitlements in accordance with the award
3	Workers Compensation	Moderate	Possible	Significant	Proactive management of workers comp claims and return to work programs & monitor key performance measures Budget Variation/Adjustment process Contingency Reserve Provision Staff training
4	Leave entitlements – Annual, LSL.	Moderate	Likely	High	Budget Variation/Adjustment process Restricted cash to cover provision for leave entitlements Maintain appropriate level of reserve provision
5	Unfunded renewal & maintenance and depreciation costs – Infrastructure Funding shortfall/ Unplanned asset failures	Major	Certain	Extreme	Apply for SRV Service levels reduced and rebalanced to address priority risks Continue Service Reviews Enhanced processes and procedures for asset management. Budget Variation/Adjustment process
6.	Waste Levy and other waste costs	Minor	Likely	Moderate	Waste management and recycling initiatives Alternative waste technologies Seek Australian & NSW Government Funding opportunities& further Regional Partnerships Waste Service Review including efficient, value for money

	Risk of Inaccurate Projected estimates of expenditure	Impact	Likelihood	Risk	Risk Treatments / Mitigation strategies
7	Cost containment/Service adjustments/Procurements unable to be adequately implemented	Moderate	Likely	High	Transparent reporting Review of discretionary expenditure
8	Natural Disaster Events & Climate Change	Major	Possible	High	Redirection of Capital and maintenance budgets Service levels reduced and rebalanced to address priority risks Resilience Planning Advocate & monitor Productivity Commission outcomes on Disaster Recovery
9	Rate pegging lower than 3%	Minor	Possible	Moderate	Service levels reduced and rebalanced to address priority risks Cost recovery Apply for SRV
10	Inaccurate Financial Assistance Grant Estimate	Moderate	Possible	Significant	Forecast adjustments 2014 Australian Government Budget reductions already factored into *LTFP*
11	Negative effects of global issues on investment markets	Moderate	Unlikely	Significant	LG investment order Council Investment policy Engagement of financial advisors Forecast adjustments
12	Blue Mountains Theatre and Community Hub – Springwood Major Project budget/funding risk	Moderate	Possible	Significant	Maintain adequate project Contingency Project management plan and associated sub plans Project risk assessments Procurement efficiencies High quality well recognised team consultants including Nationally recognised Quantity Surveying company Adjust project scope if required
13	Unplanned Asset Works project	Moderate	Likely	High	Business Case Feasibility Study Risk assessment

3.9 Conclusion

The Council's financial challenges are significant. Our financial position will only be considered sustainable in the long-term if our financial capacity is sufficient – for the near future – to allow the Council to meet its expected financial requirements over time without having to introduce substantial or disruptive revenue and/or expenditure adjustments.

Although our cash liquidity (i.e. our working capital) is sound and the majority of the financial performance measures are above benchmark, there are two key performance indicators that must be addressed; firstly, the Council's Operating Result; secondly, the Asset Renewal Ratio. The Operating Result is currently in a deficit position, which means the Council's revenue is insufficient to meet our City's expenditure requirements. The Asset Renewal Ratio is also less than the benchmark and this means the Council is underfunding all built asset renewal requirements relative to the rate at which these assets are depreciating. If each of these challenges is not addressed, the operating deficits and underfunding of assets will cause a deterioration of the condition of our built assets in future years and may lead to unacceptable impacts on service levels.

Put simply, the Council does not have the required level of revenue to meet expenditure requirements without strong corrective actions. Without such, the financial sustainability of the Council and our capacity to meet the goals of our Community Strategic Plan – *Sustainable Blue Mountains 2025* will deteriorate significantly.

This *LTFP* involves the implementation of *Six Strategies for Financial Sustainability*. When implemented together, these strategies will ensure that the Blue Mountains is a better place to live, work and visit in the future. These strategies apply equally to each of the three alternative funding scenarios detailed in this plan.

The *LTFP* also notes that none of the options for *Resourcing Our Future* will fully address the infrastructure backlog, as the level of funding required is likely to be beyond the capacity of our community to pay. The financial scenarios therefore offer the community the opportunity to determine the right balance between how much they wish to pay for services through rating against the extent to which they wish the Council to implement its other financial strategies.

Our financial future will be informed by, and contingent upon, the input received from the community engagement on affordable and acceptable levels of service across the three alternative financial scenarios.

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4: Asset Management Policy & Strategy
2014- 2024

4.1 Executive Summary

4.1.1 Document purpose

The *Local Government Act 1993* Integrated Planning and Reporting Framework (see *Part 1, Section 1.1*) requires Councils to prepare a *Resourcing Strategy* that includes an *Integrated Asset Management Policy (IAMP)*, *Asset Management Strategy (AMS)* and *Asset Management Plans (AMPs)* for the various classes of physical assets which they manage.

This *AMS* includes the overarching council endorsed I*AMP*. It sets the broad framework for undertaking asset management in a structured and coordinated way, outlines why and how asset management will be undertaken and provides key principles that underpin asset management at Blue Mountains City Council (BMCC).

In resourcing the implementation of the City's Community Strategic Plan – *Sustainable Blue Mountains 2025*, this *AMS* shows how the Council's existing asset portfolio will contribute to the service delivery requirements of the community both now and into the future. In particular it:

- Sets out the affordable level of asset service provision over the next 10 years, given projected available funding
- Outlines how the Council's assets will be effectively managed to achieve agreed levels of affordable service
- Outlines the risks associated with the provision of an affordable level of service and how they will be responsibly managed
- Outlines the requirements to ensure this *AMS* is achieved including implementation of an *Asset Management Improvement Program (AMIP)* that details the tasks required to achieve an appropriate level of asset management maturity
- Ensures the integration of the Council's asset management with its long term Community Strategic Plan - *Sustainable Blue Mountains 2025*, *Resourcing Strategy* and four-year *Delivery Program*

It is intended that this Strategy be reviewed and updated on an annual basis to effectively guide the activities and decision making of BMCC into the future.

4.1.2 Strategic outlook

The BMCC Local Government Area is unusual in that it has a very high ratio of infrastructure per resident compared to other urban councils due to factors such as urban development limited to a narrow ribbon of 100 kilometres of ridge top within a mountainous World Heritage area. Furthermore, there are a number of challenges and constraints for asset management including natural disaster events and difficult to access terrain including steep gullies and cliff tops, which prove costly for construction and maintenance work.

For many years, maintenance and renewal funding for assets has been below the required level consequently, there has been a widespread and gradual deterioration in asset condition to an extent where service levels will become unacceptable unless the Council increases investment and / or reduces service levels. This will require a rebalancing of service levels over the next 10 years, while managing risk and engaging the community on service level trade-offs.

The current focus is on renewal and maintenance of critical assets ahead of providing any new and upgraded assets. Any new and upgraded assets are to be largely funded through external sources, for example, grants.

This *AMS* assumes the achievement of a more favourable outlook through the implementation of the *LTFP* and its *Six Strategies for Financial Sustainability (see Part 3 LTFP, Section 3.4).*

What this means for the Council's assets is that:

- Over the next 10 years there will be a period of service level adjustment including asset rationalisation with some targeted replacements and renewals, risk mitigation, community consultation and developing partnerships to improve opportunities; and
- For the years beyond 2023, and possibly sooner, there will be a period of gradual asset condition improvements and targeted service enhancements (if required), funded from the benefits reaped from implementing Council's disciplined financial approach and dependent on obtaining additional operating revenues.

The Council will implement an improvement plan to raise asset management maturity to an appropriate level and to align with the National Asset Management Framework. The *AMIP* will assist council to respond to key risks relating to renewal and maintenance of ageing infrastructure, increasing standards and legislative changes, increase in asset base and natural disasters and other natural events. The *AMIP* identifies more than 20 actions to:

- improve data confidence levels and measurement
- build in-house asset management capability
- report to Council on current and future service levels, lifecycle costs and risks to inform decision making
- enable *AMPs* to better inform and guide Council on asset needs and funding
- better consult with the community on asset management priorities

4.1.3 Asset management strategies

The Council is committed to responsibly managing it assets to:

- Align assets with service provision through *Sustainable Blue Mountains 2025*
- Provide value for money services within available resources – using a risk based approach
- Improve asset management planning, practices and systems
- Ensure that assets are fit for purpose and meet established priority community need including reference to the spatial allocation of assets

To achieve this, the Asset Management strategies to be implemented over the next 10 years are:

1. Ensure that BMCC's services and infrastructure are provided in a sustainable manner:
   - Consider the risks and consequences of actions and inaction when prioritising asset renewal or maintenance and when allocating funding
   - Prioritise renewal and maintenance strategies that reduce lifecycle costs, reduce risk while maintaining asset function
2. Safeguard BMCC assets, including physical assets and employees by implementing Asset Management strategies and directing appropriate resources to:
   - Develop employee capability, capacity and competency in Asset Management practice
   - Promote employee and Councillor stewardship and governance of Asset Management
   - Collaboratively identify and consistently apply criteria to prioritise funding of projects throughout BMCC
   - Annually allocate appropriate and sufficient financial & operational resources to implement Asset Management strategies
3. Demonstrate transparent and responsible asset management processes that align with best practice and statutory requirements and standards

- Meet legislative requirements for asset management including maintenance of compliant *AMP, AMS, AMP's*
- Achieve and sustain a target level of Asset Management maturity across BMCC
- Review and update all Asset Management plans annually
- Consult with community on Asset Management priorities
- Align the community strategic plan –*Sustainable Blue Mountains 2025, AMS, Delivery Program* and budgets and assess BMCC financial health and inform decision makers

4.2 Asset Management Policy

The *AMP* sets the framework for the preparation of the Council's Strategy and Plan/s, while the Strategy supports and implements the Council's Policy.

The *AMP* is developed by the Council's Strategic Asset Management Committee (SAMSC). It is subsequently reviewed and endorsed by Council's Governance and Risk Steering Group (GRSG*)* and then adopted by the Council.

The *AMP* is provided in *Section 4.11.*

4.3 What is the current situation?

4.3.1 Council's current asset stock

Currently, BMCC is responsible for built assets valued at $1 billion and of approximately 10,000 hectares of natural area assets, whose value is in the process of being assessed. As shown in *Table 4-1* the Council's built and natural assets support the delivery of a wide range of services, facilities and infrastructure to the community.

Table 4-1: Assets that support services

Service	Assets that Support Services
Aquatic & Leisure Centres	• 5 Leisure and Aquatic Centres across the City
Burials & Ashes Placement Service	• 9 Cemeteries with associated infrastructure including fencing, garden beds, signage, pathways, car parks and buildings
Commercial Activities	• 2 Caravan Parks • Approximately 20 buildings leased as residential and commercial properties some containing multiple shops
Community Development	• 15 Public Halls and meeting places • 15 Childcare centres and Preschools • 20 Welfare Centres • Associated other buildings e.g. sheds, shelters, toilets etc.
Cultural Development	• Blue Mountains Cultural Centre • 4 Buildings used purely for Cultural Development plus • 20 sculptures • 25 Cenotaph/war memorials • 16 Obelisks • 7 Artefacts • Numerous smaller Cultural Physical Assets

Service	Assets that Support Services
	• This service is also supported by numerous other assets in other services o Cultural Heritage assets that provide other services e.g. heritage listed bridges, walking tracks, play equipment o Buildings and facilities that can be used for cultural development and events e.g. sports grounds, halls
Economic Development & Tourism	• 2 Visitor Information Centres • Echo Point Concourse and associated buildings
Emergency Management	• 26 Emergency buildings comprising o The Katoomba Emergency Services Centre o 24 Rural Fire Service (RFS) Buildings o 1 Stand-alone State Emergency Service Building • RFS Vehicle Fleet • 300 Asset Protection Zones (APZ) and 63km Fire Trails
Libraries & Information	• 6 Libraries across the city
Natural Environment	• Aquatic Ecosystems o 19ha of open water bodies o 317km creek lines • Approximately 10,000 ha Terrestrial Ecosystems
Sport & Recreation – Natural Area Visitor Facilities (NAVF)	• Approximately 120km Walking tracks • Approximately 85 Lookouts • 5 Campgrounds • Numerous shelters, pit toilets, toilets and other buildings
Sport & Recreation - Recreation Facilities	• 72 sporting amenities, club houses and public toilet buildings plus approximately 75 shelters and sheds across: o 105 Parks o 22 Sports Grounds o 6 Skate Parks o 66 Sports Courts • with 54 play equipment settings
Town Centres	• 7 Town Centre Public Toilets • This service is also supported by numerous assets in other services e.g. roads, footpaths, tourism signage, parks, drainage, carparks etc.
Transport & Public Access	• 681 km sealed road pavement • 65 km unsealed road pavement • 175km footpaths • 523km Kerb and gutter • 31 bridges • >73,000sqm sealed carparks • 151 bus shelters • 18,097m guardrails • 13680 signs • 68 marked crossings

Service	Assets that Support Services
	• 19 roundabouts • 41 pedestrian refuges • 33 wombat crossings
Waste Resource Management	• Katoomba Waste Management Facility (WMF) • Blaxland WMF • A fleet of Compaction trucks
Water Resource Management	• 153km Pipes • 7,935 Pits • 53km Open Channels • 2,686 Headwalls • 204 Stormwater Quality Improvement Devices
Good Governance	• Fleet • Operational buildings • Office equipment • IT equipment

4.3.2 Critical assets

Critical assets are those assets that are likely to result in a more significant financial, environmental and social cost in terms of impact on organisational objectives[1]. In relation to BMCC these are those assets that support services that have a high community need and/or a high risk profile.

Table 4-2 BMCC critical assets

Council's Critical Assets	High Community Impact	High Risk Profile
Transport assets i.e. roads and bridges		✓
Stormwater assets		✓
Assets supporting Council's emergency services activities	✓	✓
Waste management assets including landfills		✓
Natural area visitor facilities		✓
Council's natural assets		✓
Recreation assets e.g. sports fields	✓	

Risk management strategies for each of these are documented in *section 4.9* Manage risk and in the attached *Service Dashboards* that form an integral part of this *Resourcing Strategy*.

4.3.3 Condition of the Council's current assets

Asset condition is a measure of an asset's physical integrity[2]. It is critical to understanding required renewal and maintenance and levels of risk. Condition doesn't always directly reflect the capacity of the asset to provide the service.

The Council's built and natural assets have been assessed as being in good, fair or poor condition as described in *Table 4-3.*

[1] IPWEA, International Infrastructure Management Manual – 2011 Glossary
[2] IPWEA, International Infrastructure Management Manual – 2011 Section 2.5

Table 4-3: Description of condition assessments

Overall rating	Description
Good	Minor maintenance only required
Fair	Significant maintenance required
Poor	Renewal required

As shown in *Figure 4-1*, currently it is estimated that:

- 21% of the Council's built assets are in poor condition, 51% in fair condition and 28% in good condition
- 17% of the natural assets managed by Council are in poor condition, 34% fair and 49% good condition

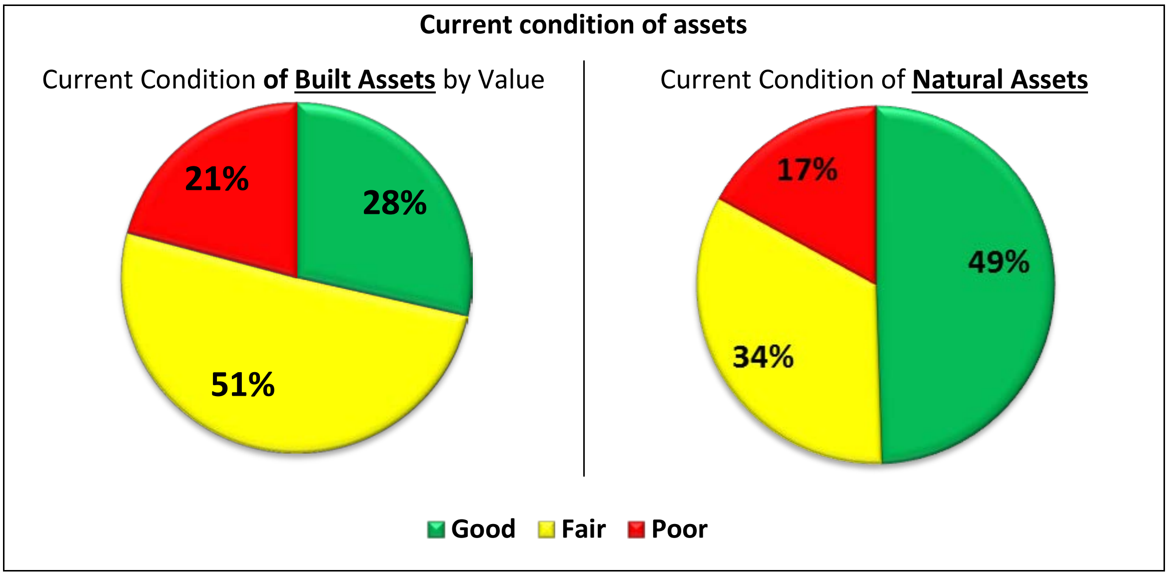

Figure 4-1: Current condition of assets

Figure 4-2 illustrates the current condition of all assets by each of the Council's services.

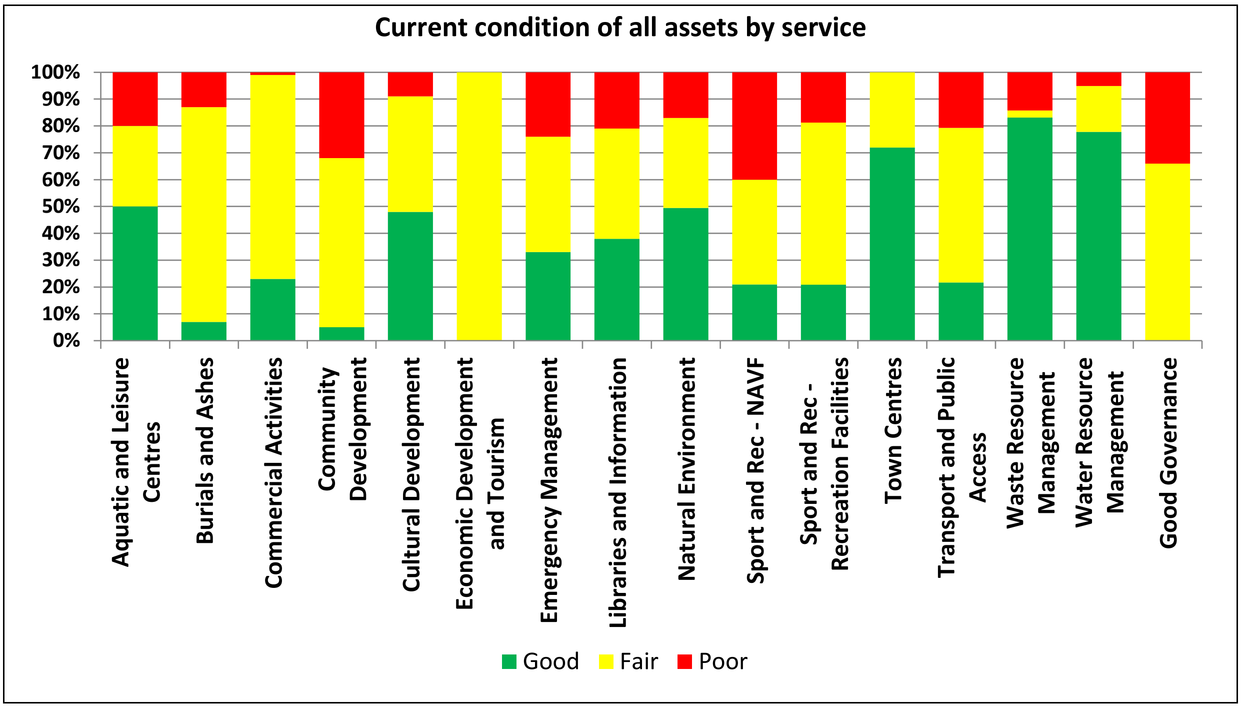

Figure 4-2: Current condition of all assets by service

4.3.4 Value of the Council's assets

The value of the physical assets which the Council manages is determined by Local Government standards in asset valuation. The following sub-sections explain the valuation methodology; describe the current value of built assets; and the approach to valuing and managing natural assets.

A. Built asset valuation methodology and depreciation

Council's noncurrent assets are progressively revalued to fair value in accordance with a staged implementation as advised by the Office of Local Government or where there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date.

On initial recognition, an asset's cost is measured at its fair value, plus all expenditure that is directly attributable to the acquisition. Where infrastructure, property, plant and equipment assets are acquired for no cost or for an amount other than cost, the assets are recognised in the financial statements at their fair value at acquisition date – being the amount that the asset could have been exchanged between knowledgeable willing parties in an arm's length transaction.

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight line method in order to allocate an assets cost (net of residual values) over its estimated useful life.

Where appropriate and evidence based, sub-components of assets are separately depreciated in accordance with real world experience.

In 2012-2013 Council reviewed its depreciation as a result of improved asset and financial data relative to useful life and fair valuation. Depreciation amounts, which form a significant part of the Council's current deficit operating result, were materially reduced because of this review.

All asset residual values and useful lives are reviewed and adjusted (where appropriate), at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Built asset value

Figure 4-3 shows the value of the Council's built assets expressed as a percentage of the $1 billion total built asset value.

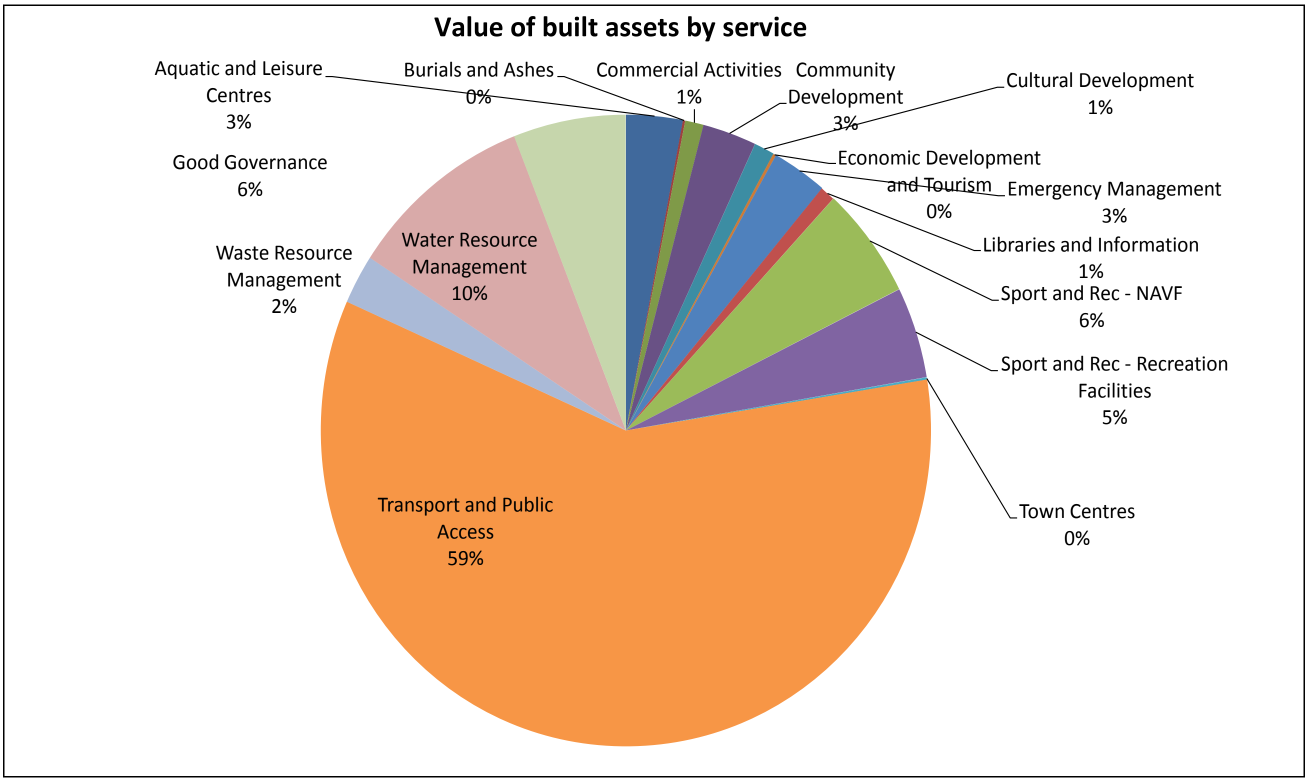

Figure 4-3: Value of built assets by service

Civil infrastructure associated with roads, transport and stormwater makes up 69% of the total asset value. Specialist buildings have been assigned to the various services but overall are 14% of built asset value.

Figure 4-1 shows that 21% of the value of BMCC built assets are in poor / very poor condition, in other words, approximately $210 million of assets in poor or very poor condition.

The current replacement value and depreciation of Council's built assets is shown in *Table 4-4.*

Table 4-4: Cost of built assets

Service	Current Replacement Cost $'000	Depreciated Replacement Cost $'000	Depreciation 2012-13 $'000
Aquatic & Leisure Centres	30,040	18,119	447
Burials & Ashes Placement	1,222	553	24
Commercial Activities	9,734	4,831	105
Community Development	28,692	12,386	341
Cultural Development	10,755	6,026	109
Economic Development & Tourism	1,589	639	16
Emergency Management	29,256	24,362	143
Libraries & Information	7,879	3,597	358
Sport & Rec - NAVF	57,556	38,285	585
Sport & Rec - Recreation Facilities	46,915	21,003	1,024
Town Centres	1,276	802	18
Transport & Public Access	594,130	373,938	6,811
Waste Resource Management	25,213	18,324	720
Water Resource Management	98,761	74,824	888
Good Governance	59,762	14,060	4,215
Total	**1,002,780**	**611,746**	**15,804**

Note: the data in *Table 4-4* does not perfectly align with the Council's LTFP 2014-2024 asset depreciation and current replacement cost due to the following:

- The LTFP includes the value of land, this AMS does not
- Issues in data maturity, which will be improved in future versions of the AMS. This work has been included in the AMIP. The difference in depreciation and valuation figures once land has been removed is less than 1% and is deemed not material

Depreciation will continue to be reviewed annually as asset data and knowledge improves

B. Natural asset value

The natural assets are comprised of natural areas made up of terrestrial and aquatic ecosystems. This includes streams and creek lines, open freshwater bodies, Endangered Ecological Communities and other rare, Threatened or Scheduled vegetation. The Blue Mountains is an area of outstanding natural value. Its World Heritage status and inclusion in Tourism Australia's National Landscapes Program (http://www.australia.com/nationallandscapes/greater-blue-mountains.aspx) is recognition of the iconic nature of the area, its biological and geological diversity, exceptional beauty and the cultural and spiritual values of the Blue Mountains. The majority of Council's natural assets form a buffer zone between the urban areas and the Greater Blue Mountains World Heritage Area.

The Council manages a range of natural assets that underpin the identity of the region and is a significant driver of the local recreation and tourism industry. These assets also contribute to community health and wellbeing. There is a strong expectation that these assets will be managed so that they have a high level of natural integrity and will be in a healthy, natural biologically functional condition. Furthermore, the condition of these assets is inextricably linked with the cultural values vested in these landscapes by the Gundungurra and Darug peoples.

Although not explicitly required by legislation, the Council has committed to managing all its assets, both built and natural, under a consistent approach within the national asset management framework[3]. The inclusion of natural assets into our asset planning is formative, innovative and necessary given the impact our natural assets have on the City of Blue Mountains. However, it is recognised that there are as yet no definitive national standards for natural areas.

While the process around the valuation of the built assets recognises national standards, the Council has also attempted to estimate the replacement value of its natural area assets based on a similar approach to that used for built assets. Considerable work is currently underway by the Council to establish a fair value for these complex assets comprising diverse ecosystems, habitats and catchments. Quantification of the value and defining the replacement cost for natural assets however, is an emerging science. In the absence of an agreed national standard methodology for valuing natural area assets, work will continue on developing a suitable formula for recognising the real value of this important asset group, which underpins the amenity, environment, community wellbeing and economy of the Blue Mountains.

At present, natural assets are not formally valued or depreciated. While this is a work in progress, figures relating to valuation or depreciation have not been included in this version of the *AMS*.

4.4 Current ability of assets to meet community needs

The Council provides assets in order to meet the needs of the City and Community. This includes assets on crown (NSW State Government) land for which it has been assigned responsibility e.g. emergency services buildings, walking tracks and lookouts.

The ability of an asset to meet community need is assessed through consideration of its:

- Function: Does the asset do what it is provided to do?
- Capacity/ level of use: Is the asset an appropriate size for the usage it has?

Function

As shown in *Figure 4-4* and *Figure 4-5* 26% of built assets currently have poor function. This represents the percentage of assets that don’t meet Australian Standard or community need.

Management of natural assets includes service activities relating to clean creeks and waterways, and protection and restoration of bushland. Poor function for Council’s natural assets represents the degree of management intervention required to maintain or improve condition. This can relate to the degree of degradation, the environmental sensitivity and/or conservation value of natural assets. Currently, 17% of Council’s natural assets have poor function.

[3] Local Government and Planning Ministers’ Council 2009,“Local Government Financial Sustainability Nationally Consistent Frameworks”

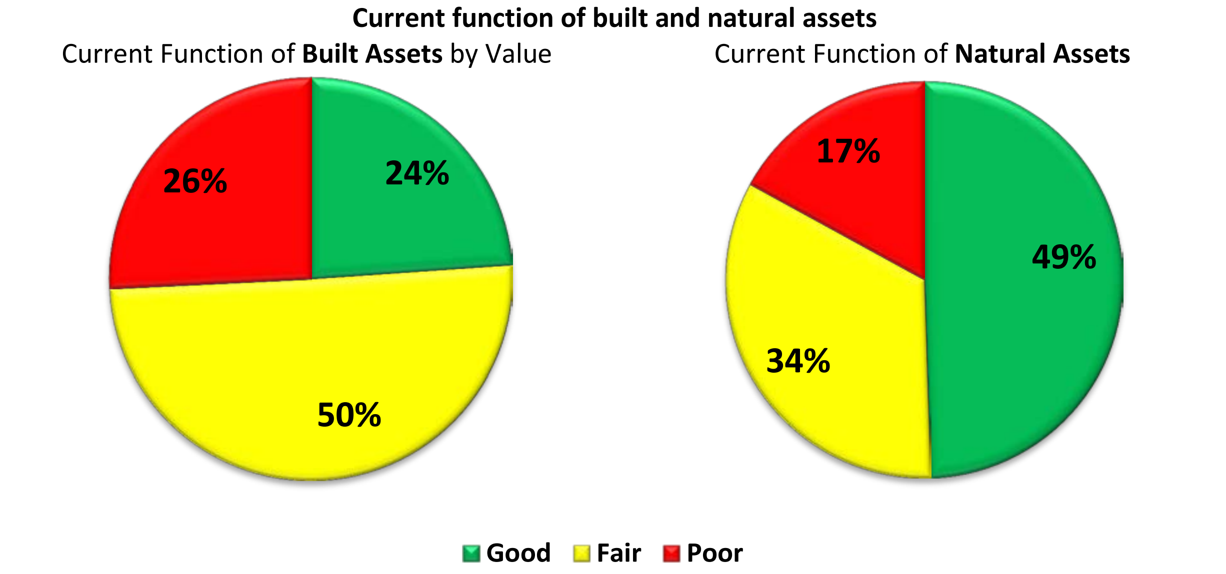

Figure 4-4: Current function of built and natural assets

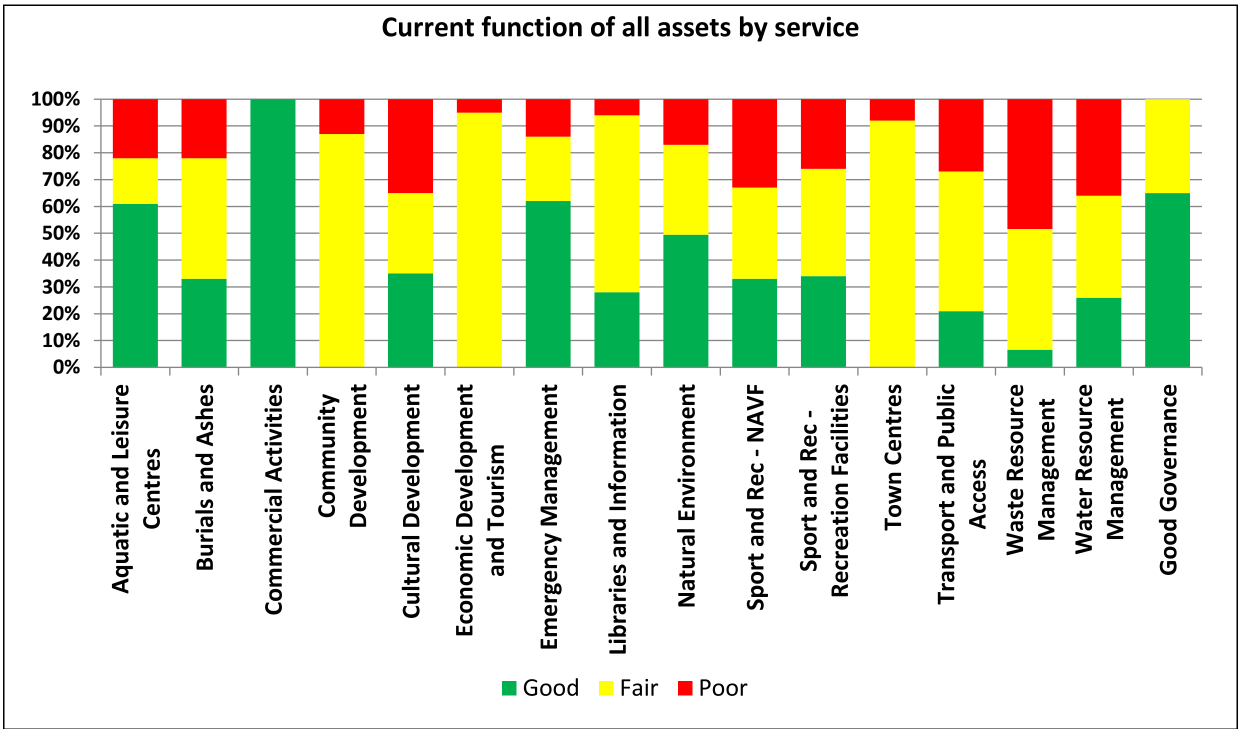

Figure 4-5: Current function of all assets by service

Capacity / utilisation

As shown in *Figure 4-6* and *Figure* 4-7 22% of built assets currently have poor capacity/ utilisation. This represents a number of factors including low utilisation of Blackheath Pool, underutilisation of recreation facilities in the upper mountains, under capacity recreation facilities in the lower mountains, the lack of extent and capacity of the stormwater network etc.

Poor capacity in Council's natural assets relates to the condition of the ecosystem. The better the condition, the greater the capacity in terms of resilience and the ability to act as an environmental sink for stormwater and other urban impacts and to respond to anthropogenic change such as increased frequency of bushfire or other changed environmental conditions associated with climate change.

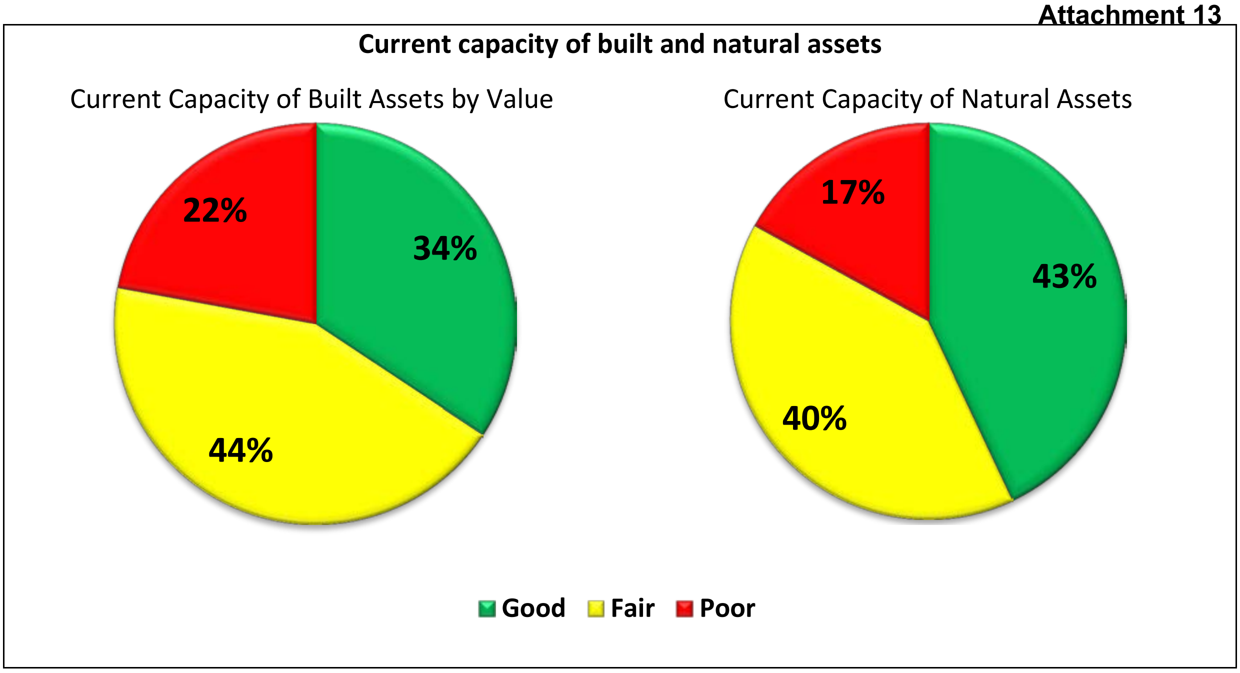

Figure 4-6: Current capacity of built and natural assets

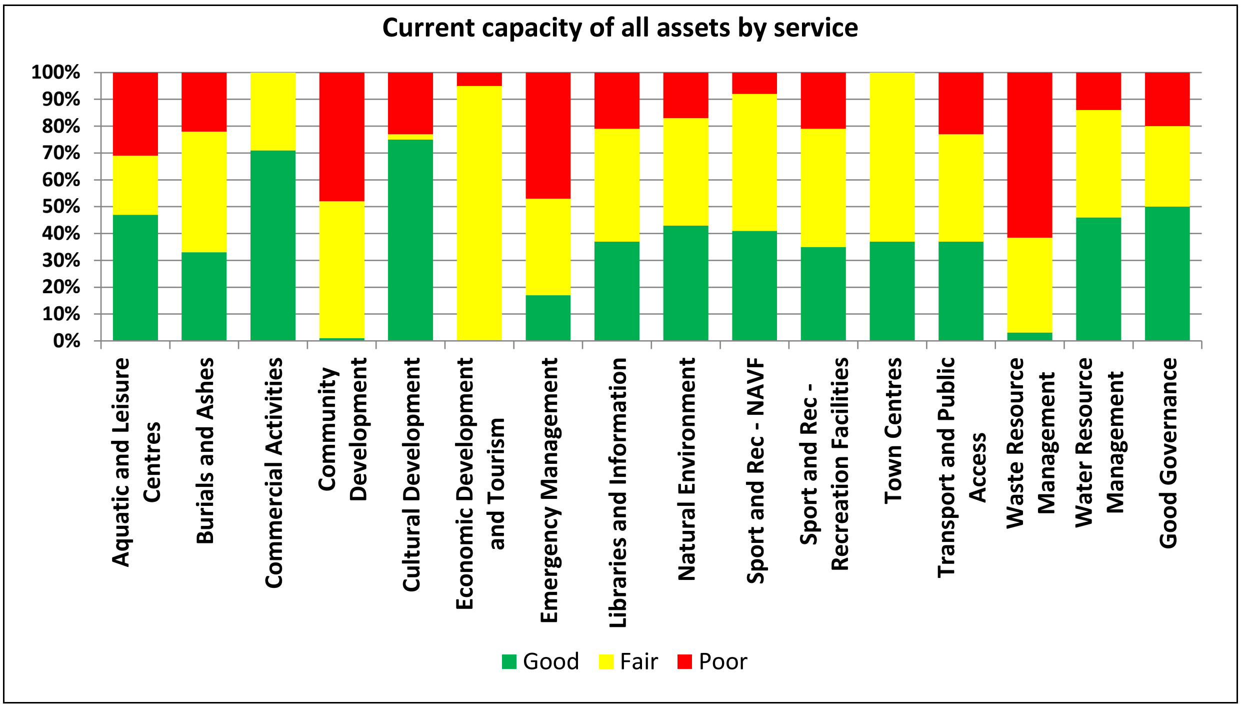

Figure 4-7: Current capacity of all assets by service

4.4.1 Factors that could affect services

A number of factors detailed below will affect the future needs of the city and community. The impacts of these will be assessed and monitored on an ongoing basis to ensure that projected changes are incorporated into future iterations of this Strategy. The implications of these changes ae both positive e.g. improved technology could result in safer work environments or negative e.g. changes to storm frequency and intensity could put greater pressure on emergency services. Scoping of these changes allows the Council to be well placed to make the most of any potential benefits and minimise risks.

Changing demographics

The present population is predicted to remain relatively static over the next 10 – 20 years. However, as discussed in *Part 2* of the *Resourcing Strategy*, changes in population growth and visitation numbers may occur with the State government's plans to grow population and employment opportunities in Parramatta and Penrith, and the Federal government's announcement for a second airport in the next 15 years at Badgerys Creek. The *2013 Local Environment Plan* also enables an increase in medium density housing around town centres which can place increasing pressure on public domain management.

The overall trend of higher proportions of older people and of those with disabilities will result in an increased demand for localised facilities with good accessibility. There have, for example, been increasing numbers of residents reporting that they need help in their day to day life due to disability[4]. There will be a need to develop links between facilities for disaster response and recovery to ensure that vulnerable and at risk members of the community are able to access safe areas.

Changing patterns of use of services

The Blue Mountains City is located at the western fringe of the Sydney Metropolitan area and receives a high level of local tourism from Sydney residents. It has, historically, been a hub for nature-based recreation and tourism, with activities such as bushwalking having taken place since the early 1900's.

Growth in Sydney's population will increase demand on tourism facilities and other assets such as pathways, roads and car parks in the Blue Mountains. In addition there is a trend to an increase in popularity of extreme sports, such as rock climbing and mountain biking. This will increase the use of existing assets sometimes accelerating wear and tear and may also lead to creation of unauthorised assets on council owned or managed land.

Pressure on Council-managed roads is likely to continue to increase as the trend towards increasing car use continues.

Natural disasters and other natural events

Australia is exposed to both frequent and large natural disasters. There has been an upward trend in both the number and cost of natural disasters in Australia and around the world[5].

The Intergovernmental Panel on Climate Change 2007 report states that "*Heatwaves and fires are virtually certain to increase in intensity and frequency (high confidence). Floods, landslides, droughts and storm surges are very likely to become more frequent and intense, and snow and frost are very likely to become less frequent (high* confidence)"[6].

The potential for these natural events to occur more frequently and /or with greater intensity could result in major impacts for asset managers. These include changing engineering standards, increased legislative requirements on council emergency activities, direct impacts to assets; for example, landslips or windstorms destroying council assets or the requirements to create new assets to provide transport linkages in the event of a disaster.

Technology

Technological advances and associated community expectations can impact upon the assets provided to the community. For example, the development of e-books, audiobooks, Wi-Fi and the internet has changed the structure of the Library facilities and the subsequent provision of services.

Other changes to technology may impact upon the way we build, inspect and manage our assets. For example, the ability to remotely access and inspect infrastructure such as subterranean pipes using

[4] (Australian Bureau of Statistics, Census of Population and Housing, 2006 and 2011 (Usual residence data)

[5] Latham, C. McCourt, P. & Larkin, C. 2010. Natural Disasters in Australia: Issues of funding and insurance. Prepared for the Institute of Actuaries of Australia's (Institute) 17th General Insurance Seminar.

[6] Hennessy, K., B. Fitzharris, B.C. Bates, N. Harvey, S.M. Howden, L. Hughes, J. Salinger and R. Warrick, 2007: Australia and New Zealand. *Climate Change 2007: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change,* M.L. Parry, O.F. Canziani, J.P. Palutikof, P.J. van der Linden and C.E. Hanson, Eds., Cambridge University Press, Cambridge, UK, 507-540.

CCTV allows Council to do so in a manner that is efficient, cost effective and does not put staff in a potentially unsafe situation.

Changing legislation and standards

Changes to legislation and technical standards that dictate the provision of particular assets such as disability access infrastructure, fire and flood management controls and the technical standards to adhere to when renewing existing or creating new assets can have significant financial impacts on the Council.

There are also a number of State and Regional Plans which outline objectives, goals and priority areas that guide the development and management of particular assets and changes to these can impact the Council.

4.5 Funding base for operations, maintenance and renewal

This *AMS* puts forward a 10-year strategy for managing assets which aligns with the Council's *LTFP 2014-2024*.

Over the next 10 years $1.3 billion is required to maintain current service levels, meet required standards on renewal and manage risk. Current projections in the *LTFP* show available funding for assets will be $1.1 billion which is a shortfall of $238 million over the 10 years. *Table 4-5* includes the risk profile for each service showing which services have high or very high rated residual risks. Further detail on risk management can be found in *Section 4.9 Manage risk*.

Table 4-5: Projected funding base over the next 10 years

Service	Funding required $'000	Available Funding $'000	% of required funding available	Funding Gap $'000	Risk Profile
Aquatic and Leisure Centres	102,713	90,060	88%	12,653	High
Burials and Ashes	12,224	12,039	98%	185	Low
Commercial Activities	42,656	33,749	79%	8,907	Low
Community Development	42,529	36,752	86%	5,777	High
Cultural Development	36,304	35,281	97%	1,023	Moderate
Economic Development and Tourism	48,324	47,030	97%	1,294	Moderate
Emergency Management	69,757	60,638	87%	9,119	Very High
Libraries and Information	47,726	44,269	93%	3,457	High
Natural Environment	79,708	34,190	43%	45,518	Very High
Sport and Rec - NAVF	60,582	15,411	25%	45,171	Very High
Sport and Rec - Recreation Facilities	55,761	39,086	70%	16,675	Very High
Town Centres	39,205	38,173	97%	1,032	Moderate
Transport and Public Access	190,170	132,963	70%	57,207	Very High
Waste Resource Management	250,924	250,924	100%	-	Very High
Water Resource Management	54,045	33,462	62%	20,583	High
Good Governance	189,544	180,097	95%	9,447	High
Total	**1,322,172**	**1,084,124**	**82%**	**238,048**	**Very High**

While the Council delivers a balanced cash budget each year, it only has approximately 82% of the funding required over the next 10 years for asset based services to maintain current service levels and manage risk. This is caused by increases in service levels in targeted areas to meet community need, cost shifting from state and federal governments, reductions in the level of grant funding available to fund ongoing operating, renewal and maintenance costs and increases in governance requirements. *Figure 4-8* shows the gap between available funding and required funding for all Council services. Under the current available funding this gap is increasing over time.

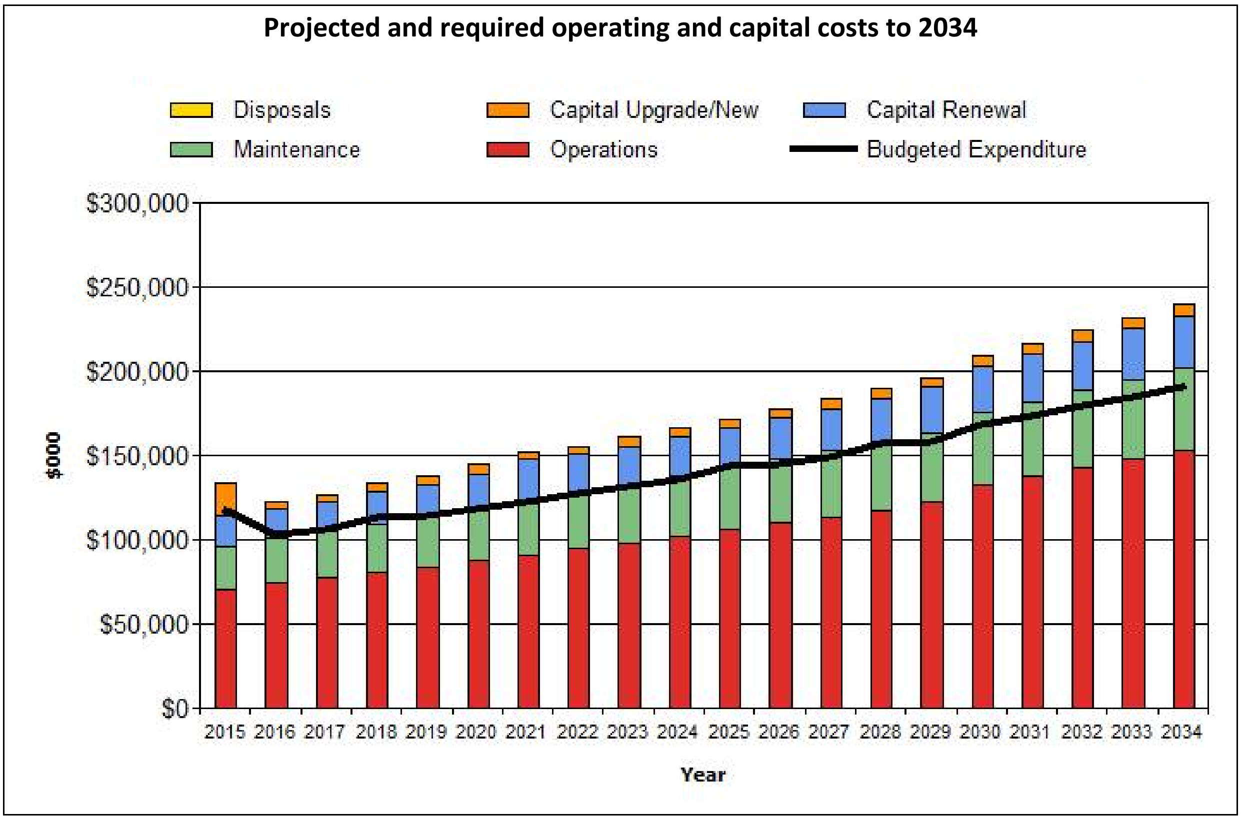

Figure 4-8: Projected and required operating and capital costs to 2034

This shortfall in funding has implications for the condition of the Council's assets and the ability of the Council to deliver services to the levels required. *Figures 4.9 and 4.10* show 10-year projections of condition, function and capacity of the Council's asset based services. Over the next 10 years, the percentage of assets in poor condition and the percentage providing a poor level of functionality and capacity will increase substantially. At current funding levels asset rationalisation to reduce risk and ensure financial sustainability will be required.

Figure 4-9 and *Figure 4-10* show the current and predicted service levels for built and natural assets.

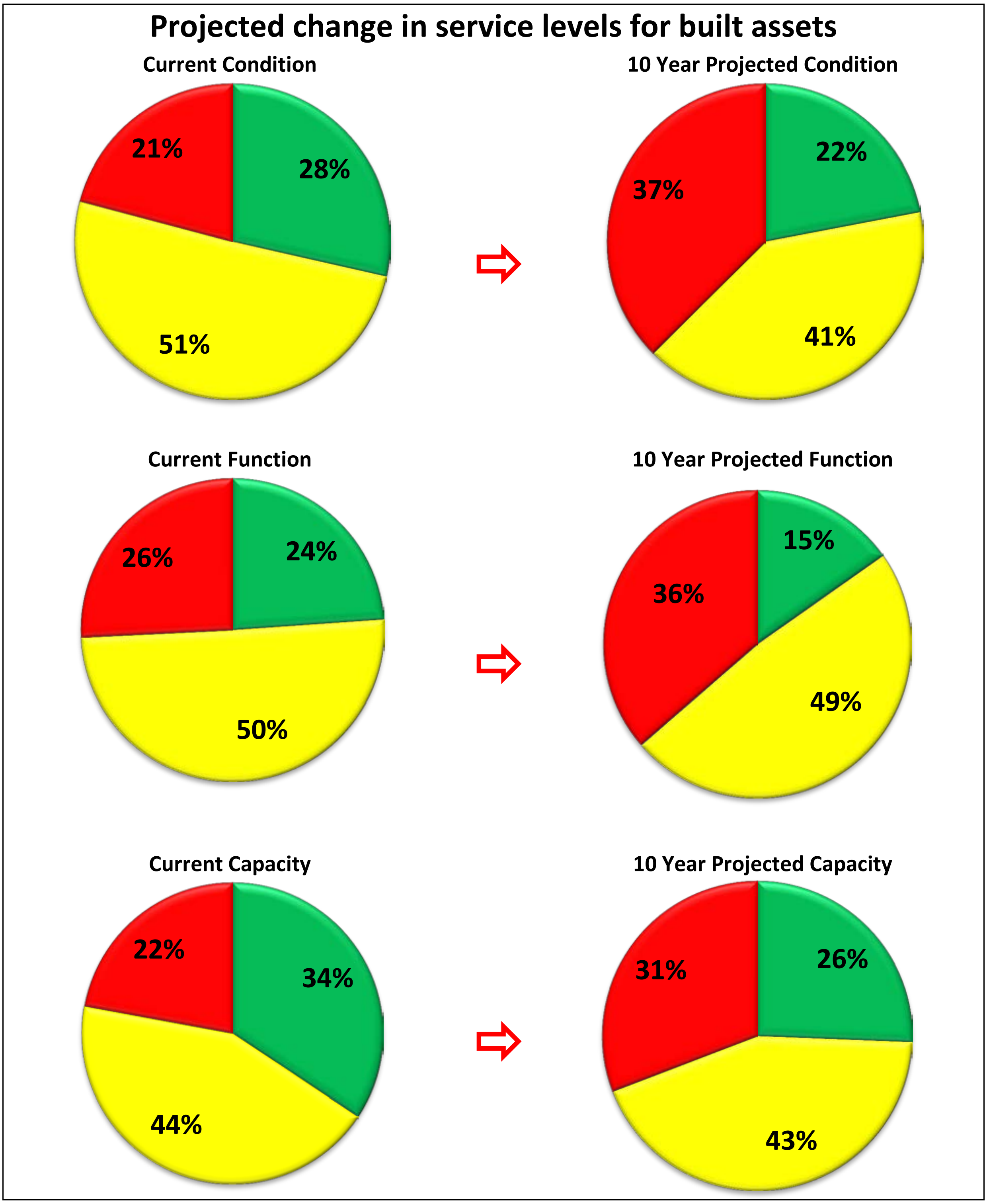

Figure 4-9: Projected change in service levels for built assets

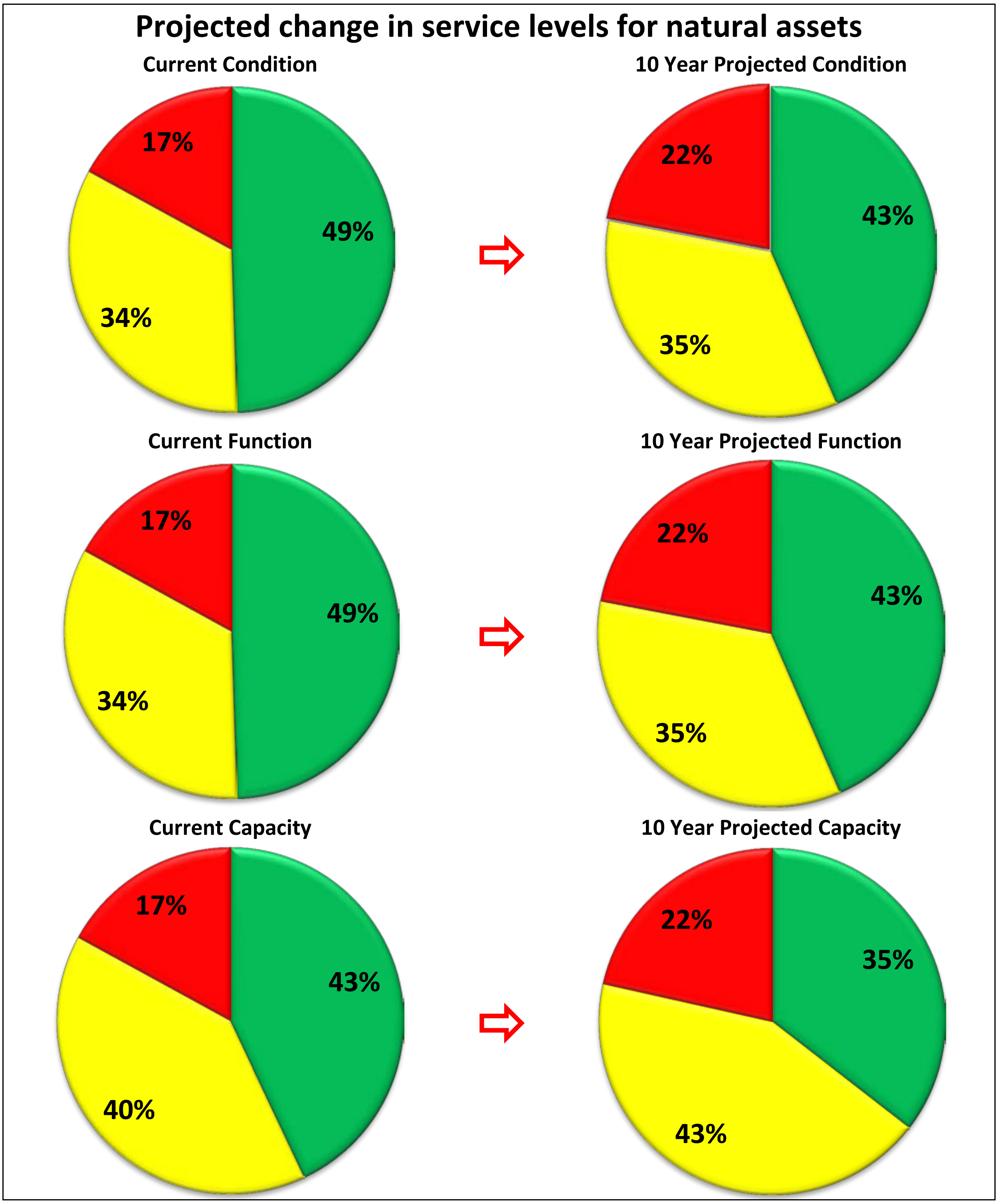

Figure 4-10: Projected change in service levels for natural assets

4.6 Asset management practices

Within BMCC, the facilitation of the asset planning processes and systems is centralised. Individual AMPs are developed by experts with input from relevant staff across Council. At this time, approximately 26% by value of built assets are still recorded in various subsidiary databases with poor linkages with financial and other systems. To resolve, this Council is currently implementing an Asset Management Information System for all Council's infrastructure and natural assets and provide links with Council's financial systems. This task forms part of the AMIP.

The structure for Asset Planning and Delivery within BMCC is shown in Section 4.6.2.

4.6.1 Asset management core competencies

The National Financial Sustainability Frameworks[7] on Financial Planning and Reporting, and Asset Planning and Management, endorsed by the Local Government and Planning Ministers' Council (LGPMC), require councils to adopt a longer-term approach to service delivery and funding. The National Assessment Frameworks define 10 key elements. Eleven core competencies have been developed from these elements to assess "core" competency under the National Financial Sustainability Frameworks. The core competencies are listed in *Table 4-6:*

Table 4-6: Core asset management competencies

Core Competencies for Financial Planning and Reporting	Core competencies for Asset Planning and Management
• Strategic Longer Term Plan • Annual Budget • Annual Report	• Asset Management Policy • Asset Management Strategy • Asset Management Plans • Governance & Management • Levels of Service • Data & Systems • Skills & Processes • Evaluation

An external provider will complete a maturity assessment of core competencies every four years and a self-assessment will be completed annually. To date, two assessments have been completed by JRA Associates (2011 and 2013) and internal assessments have been completed twice (2012 and 2014). The Council's maturity assessment for core competencies is summarised below in *Figure 4-2.* The assessment score ranges from 0-5 with a score of 3 indicating achievement of core maturity, and a score of 5 indicating advanced maturity. The Council is generally scoring close to core maturity level with further development required in a few key areas as outlined in the AMIP in section 4.10.

[7] Champion, C. & Patterson, L. 2012. National Assessment Frameworks For Local Government Asset Management and Financial Planning Implementation Proposal Paper

Figure 4-11: Asset management maturity assessment

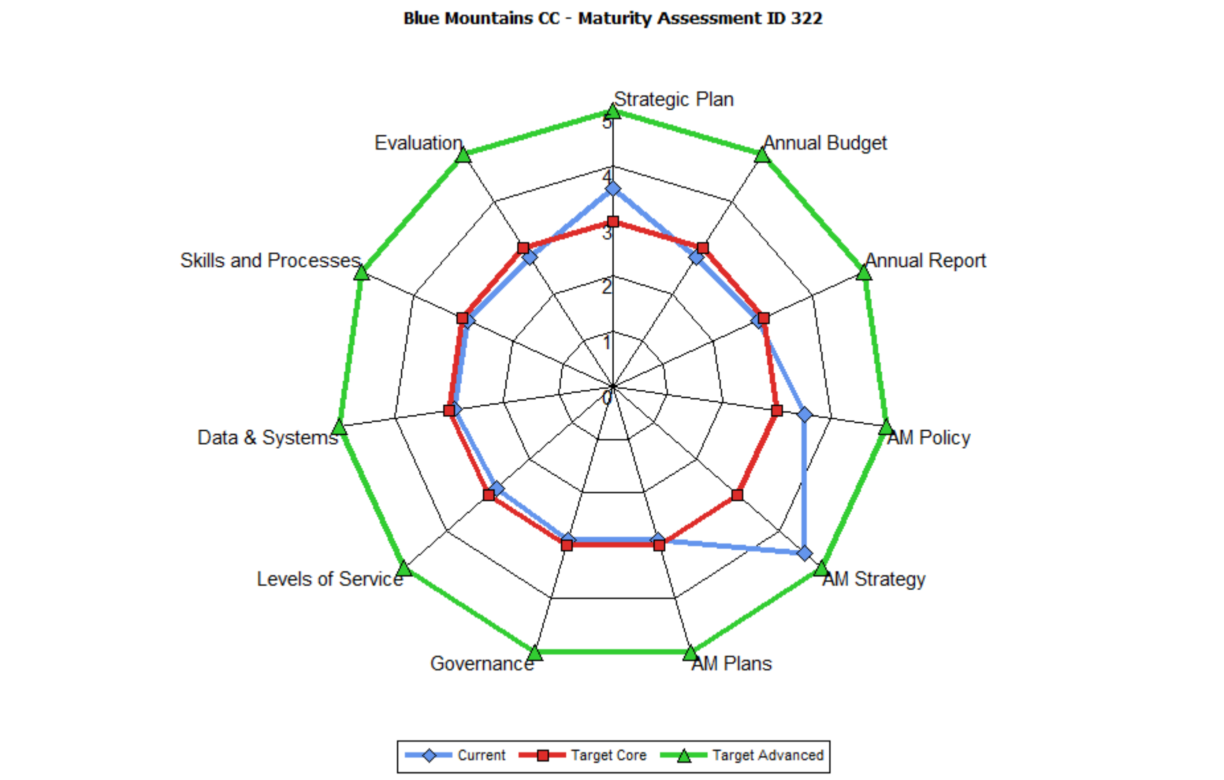

Figure 4-11: Asset management maturity assessment

The NAMS.PLUS Maturity Assessment uses a series of questions that have been developed around asset management maturity competencies linked to the 10 key elements of the LGPMC Financial Sustainability Frameworks. The questions have been agreed between stakeholders to facilitate a nationally consistent evaluation of implementation.

4.6.2 Asset management structure and responsibilities

The structure for Asset Planning and Delivery within BMCC is represented in *Figure 4-12* below.

The Strategic Asset Management Steering Committee (SAMSC*)* is Council's core committee responsible for Asset Management. The SAMSC is responsible for:

- Prioritisation of objectives and outcomes identified in the AMIP
- Ensuring allocation of appropriate budget so that effort, expenditures and charges are appropriate to stakeholder expectations
- Risk management strategies to address potential threats to the success of AMPs have been identified, estimated and approved, and that the risks are regularly re-assessed
- Providing a regular risk report to BMCC's Governance and Risk Steering Group (GRSG*)* based on the risk management plans outlining significant residual risks resulting from asset based services. The risk report will be quarterly or as needed; high risks will be given immediate attention
- Providing a regular service level progress report to the Executive Leadership Team (ELT) on the achievements or progress against service level targets set in the Asset Management planning portion of Council's *Resourcing Strategy*

The SMASC is a cross organisational team that reports directly to the ELT and the *GRSG*. Its role will evolve as organisational maturity increases.

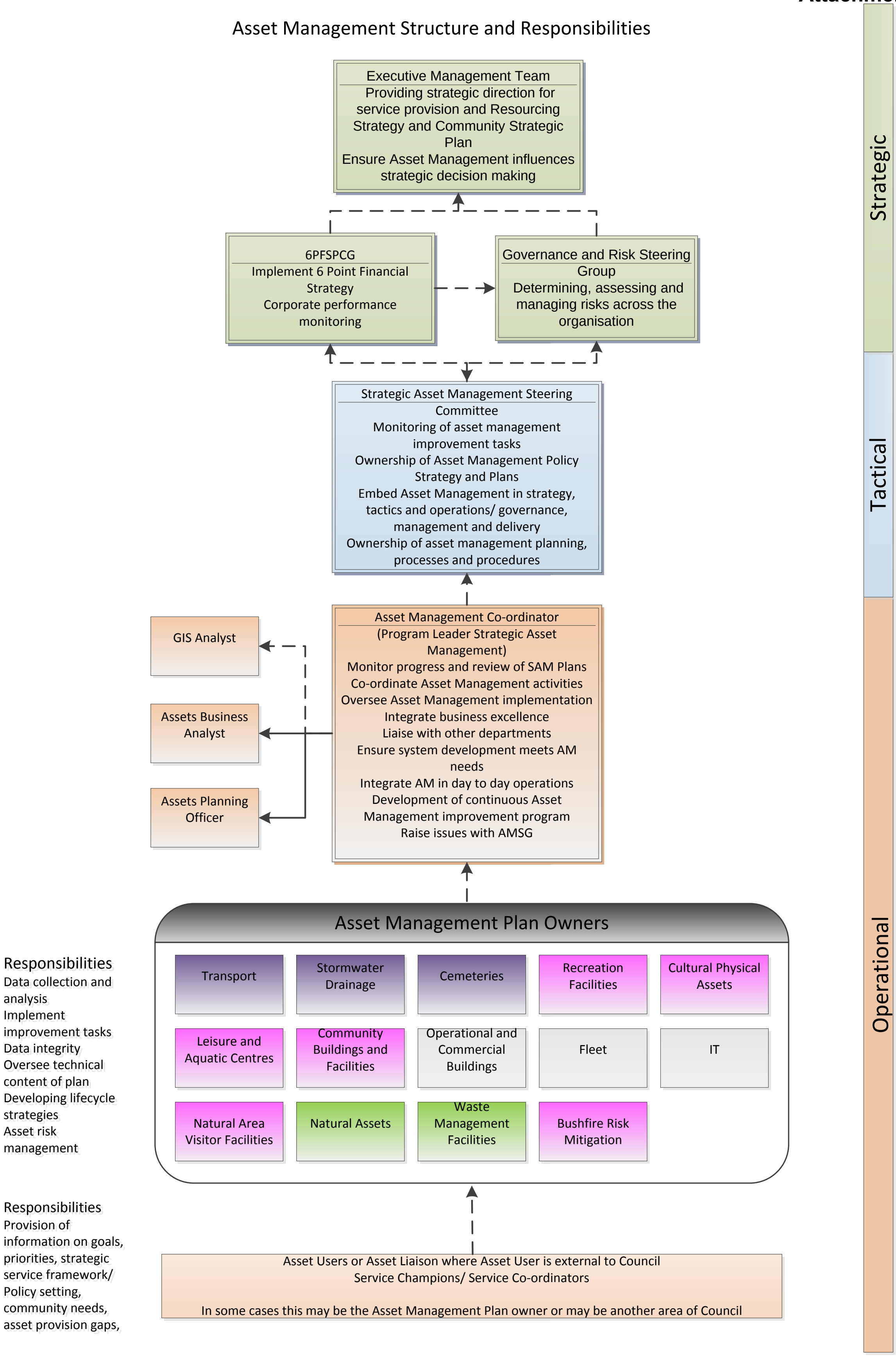

Figure 4-12: BMCC **Asset management structure and responsibilities**

4.7 Where do we want to be?

The Council's AMS must fit within the vision and objectives of its Community Strategic Plan – *Sustainable Blue Mountains 2025.* The Council's response to *Sustainable Blue Mountains 2025* is through the *Resourcing Strateg*y and *Delivery Program / Operational Plan.* The Council's response must be within its financial and asset management realities.

4.7.1 Alignment with *Sustainable Blue Mountains 2025*

The Council has adopted a community vision for the future in the Community Strategic Plan – *Sustainable Blue Mountains 2025*:

> *"A more sustainable Blue Mountains by 2025: environmentally, socially and economically."*

The guiding principles that underpin *Sustainable Blue Mountains 2025* are

- Improving our decision making processes at every level
- Strengthening our assets
- A partnership approach
- Social justice
- Sustainable city

Sustainable Blue Mountains 2025 sets strategic objectives to be achieved over the long term and strategies for achieving them. Many of these strategic objectives directly or indirectly relate to the Council's asset profile.

The Council is continuing a process to improve forecasting service delivery needs and the capacity to meet them on a short, medium and long-term basis through:

- Establishing a consistent methodology to define current Levels of Service for all Council services
- Implementation of Best Value Service Reviews on a regular basis to ensure they are providing value for money, and are relevant in meeting community needs and priorities
- Engaging with the community to achieve affordable and acceptable levels of service

The following progress measures in *Sustainable Blue Mountains 2025* will assist in tracking Levels of Service for assets:

- Condition of assets and their fitness for purpose
- Resident satisfaction and importance ratings for assets

It will be important to set targets for these progress measures that are based on agreed priorities as endorsed by the Council that can be achieved within available revenue.

4.7.2 Applying appropriate asset management practices and procedures

In order to ensure that Council is accountable and transparent in resource allocation and that the vision and objectives set out in the *Sustainable Blue Mountains 2025* are met, asset management improvements will be made so that Council:

- Meets as a minimum core asset maturity and advanced Asset Management maturity as required;
- Makes decisions that align with AMP, AMS and AMPs
- Achieves its financial ratios and targets relating to assets
- Manages risks effectively and communicates residual risk to Council

The Council has committed in its overarching AMP that it will meet and apply the requirements for 'core asset management maturity', and to continuous improvement of its AMS.

The following progress measures have been agreed by the SAMSC to track progress against these objectives:

- Meeting occurrence and attendance
- Implementation of AMIP
- Operating Result from Continuing Operations
- Asset Gaps
    - Buildings and Infrastructure Renewals Ratio
    - Asset Renewal Funding Ratio
- Risk Management
    - % of 'very high' risks on Corporate Risk Register
    - % of High risks on Corporate Risk Register
- Gap between affordable and acceptable service levels
- % of AMPs that have service standards in place
- % of Risk Registers reviewed annually
- Council decisions align with AMP and AMS.

These measures will evolve as organisational maturity increases.

4.8 How will we get there?

In order to ensure Council meets its strategic objectives a number of actions need to be undertaken. These are outlined in the following sections.

Implementing Council's strategic objectives

Council will ensure achievement of *Sustainable Blue Mountains 2025* objectives through implementation of the adopted financial strategy and effective management of risk.

Implementation of Financial Strategy

To drive the 10-year targets for financial sustainability through all of Council business, the LTFP has six key financial strategies. The two key financial strategies that will have impact on assets are:

- Strategy 4. Increase income
- Strategy 5. Adjust services

4.8.1 Increase income

As detailed in *section 3.3*, service levels cannot be maintained under current funding levels. Council has consulted with the community on proposed changes to rating income to reduce, maintain or improve service levels.

Full details of the proposed changes and how Council engaged with community can be found in a separate document *Resourcing our Future- Community Engagement Strategy 2014.*

Funding for services under Option 1: Service Levels improved.

Under *Option 1: Service Levels Improved* - asset condition, function and capacity will improve overall in the next 10 years. Council can invest in strategies to reduce lifecycle costs as well as improvements to key services. Even under this option not all services will be funded at the required level. However*,* improvements to the allocation of funding will ensure that service levels are improved in the long-term.

Table 4-7: Funding available over next 10 years to invest in Services under Option 1: Service Levels Improved

Service	Funding required $'000	Available Funding $ '000	% of required funding available	Funding Gap $'000
Aquatic and Leisure Centres	102,713	96,549	94%	6,164
Burials and Ashes	12,224	12,208	100%	16
Commercial Activities	42,656	34,945	82%	7,711
Community Development	42,529	41,933	99%	596
Cultural Development	36,304	36,304	100%	-
Economic Development and Tourism	48,324	48,415	100%	-91
Emergency Management	69,757	65,956	95%	3,801
Libraries and Information	47,726	47,276	99%	450
Natural Environment	79,708	43,536	55%	36,172
Natural Area Visitor Facilities	60,582	22,444	37%	38,138
Recreation Facilities	55,761	42,911	77%	12,850
Town Centres	39,205	41,212	105%	-2,007
Transport and Public Access	190,170	163,746	86%	26,424
Waste Resource Management	250,924	250,924	100%	-
Water Resource Management	54,045	41,237	76%	12,808
Good Governance	189,544	188,352	99%	1,192
Total	**1,322,172**	**1,177,948**	**89%**	**144,224**

Funding for services under Option 2: Service Levels maintained

For *Option 2: Service Levels Maintained* -asset condition, function and capacity will be maintained in the next 20 years overall. In the next 10 years the deterioration in asset condition will decrease as Council is able to invest in strategies to reduce lifecycle costs in the long term. Despite less than 100% of funding being available to maintain service levels and reduce risk *(Table 4-8)*, improvements to the allocation of funding will ensure that service levels are maintained in the long term.

Table 4-8: Funding available over next 10 years to invest in services under Option 2; Service Levels maintained

Service	Funding required $'000	Available Funding $'000	% of required funding available	Funding Gap $'000
Aquatic and Leisure Centres	102,713	96,179	94%	6,534
Burials and Ashes	12,224	12,208	100%	16
Commercial Activities	42,656	34,945	82%	7,711
Community Development	42,529	39,895	94%	2,634
Cultural Development	36,304	36,181	100%	123
Economic Development and Tourism	48,324	48,224	100%	100
Emergency Management	69,757	63,469	91%	6,288
Libraries and Information	47,726	45,397	95%	2,329
Natural Environment	79,708	43,239	54%	36,469

Natural Area Visitor Facilities	60,582	19,499	32%	41,083
Recreation Facilities	55,761	39,086	70%	16,675
Town Centres	39,205	40,623	104%	-1,418
Transport and Public Access	190,170	154,130	81%	36,040
Waste Resource Management	250,924	250,924	100%	-
Water Resource Management	54,045	37,912	70%	16,133
Good Governance	189,544	187,822	99%	1,722
Total	**1,322,172**	**1,149,733**	**87%**	**172,439**

Option 3 funding levels

For an overview of *Option 3: Service Levels Reduced* - please refer to Section 4.5 Funding base for operations, maintenance and renewal.

Summary

The impact of each of these funding options on condition, function and capacity of Council's assets is detailed in *Figure 4-13* through to *Figure 4-18* on the following pages. Each option with increased funding aims to increase or maintain service levels in key areas where capacity or function is poor as well as to reduce risk, minimise lifecycle costs and increase community satisfaction. This will ensure that services in the future can be maintained or improved and Council remains efficient.

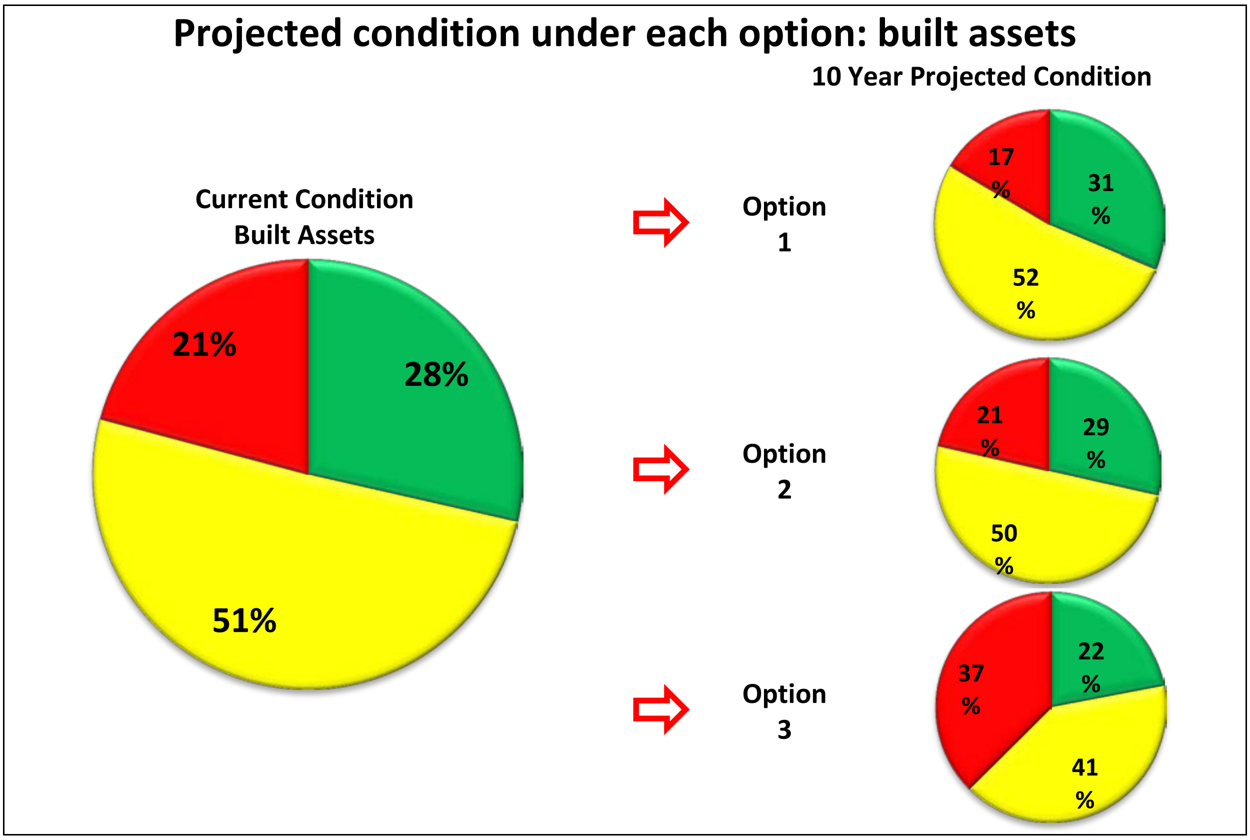

Figure 4-13: Projected condition under each option: built assets

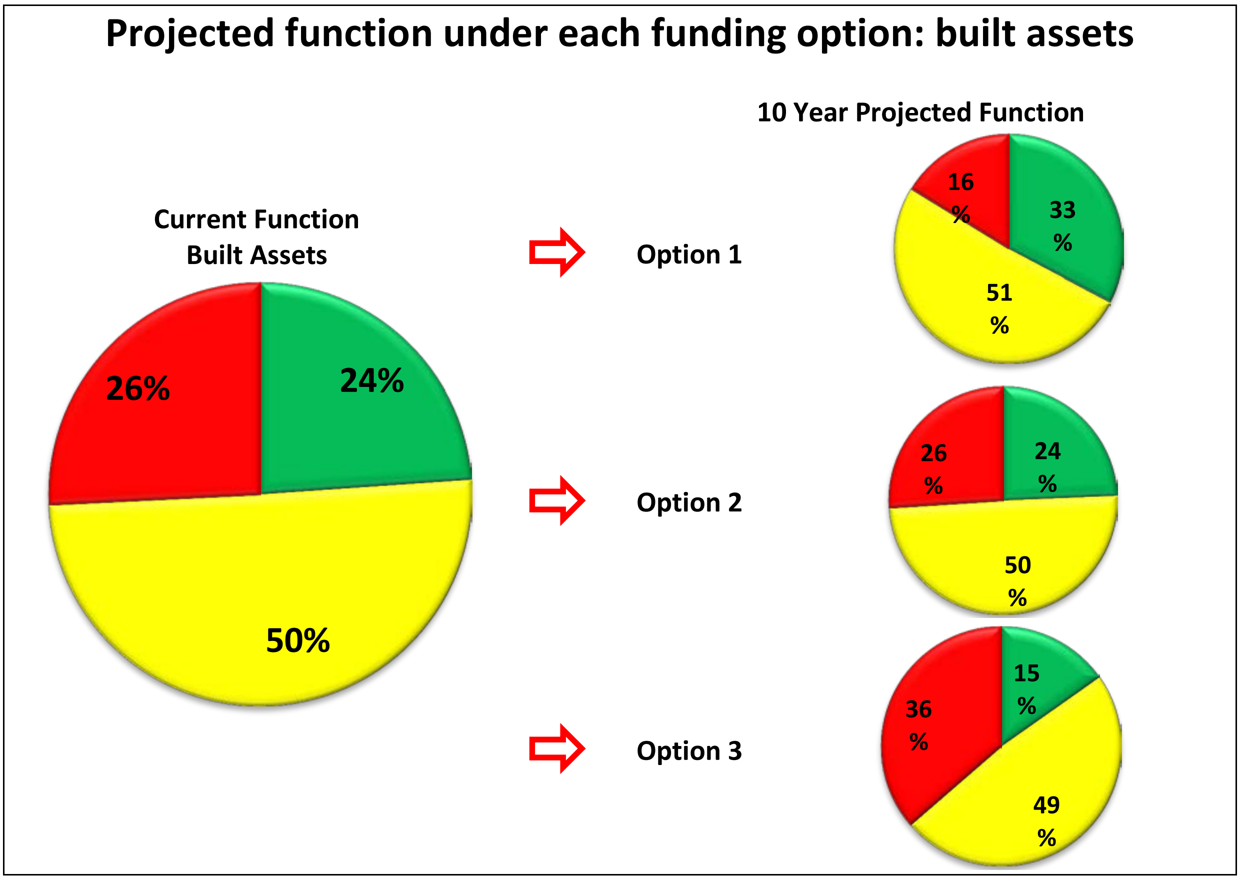

Figure 4-14: Projected function under each funding option: built assets

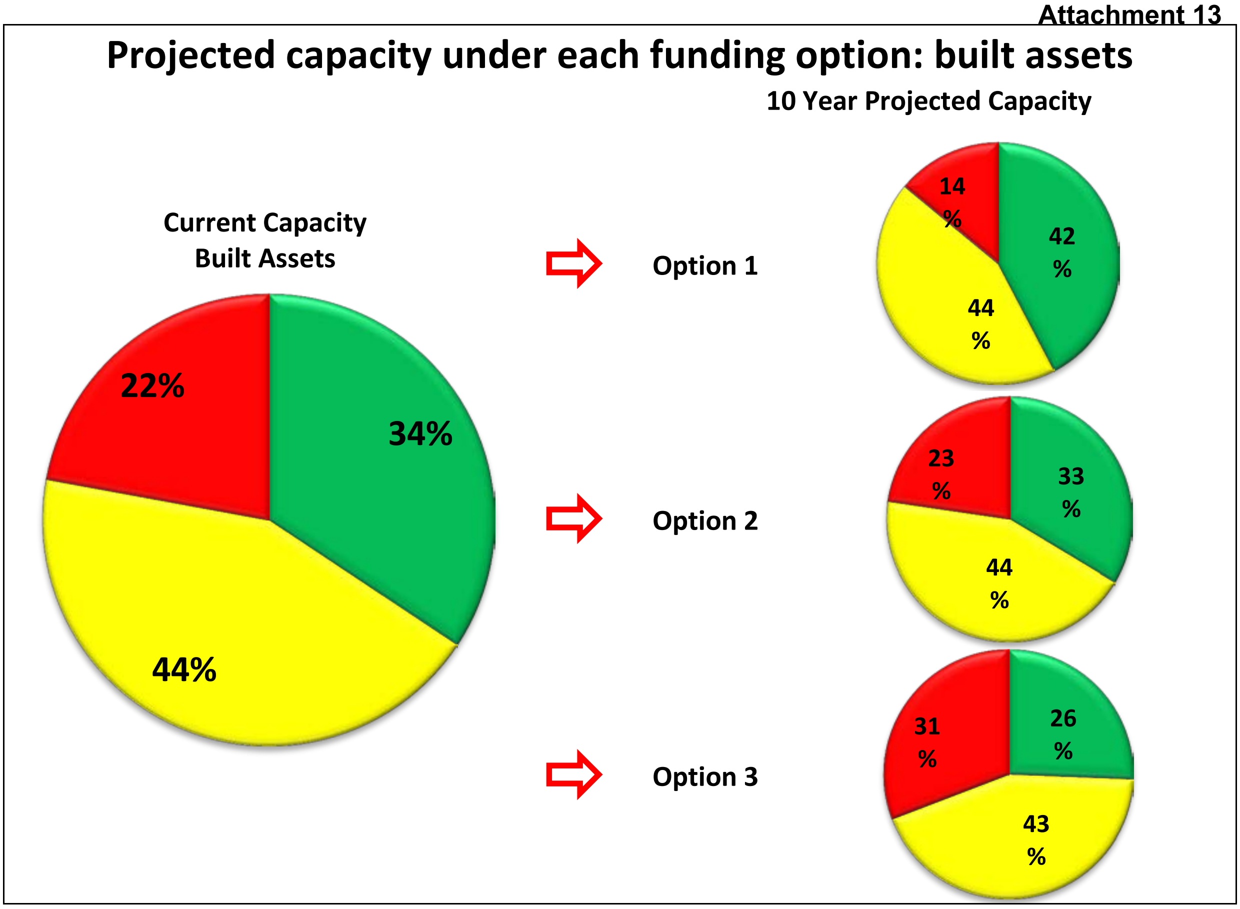

Figure 4-15: Projected capacity under each funding option: built assets

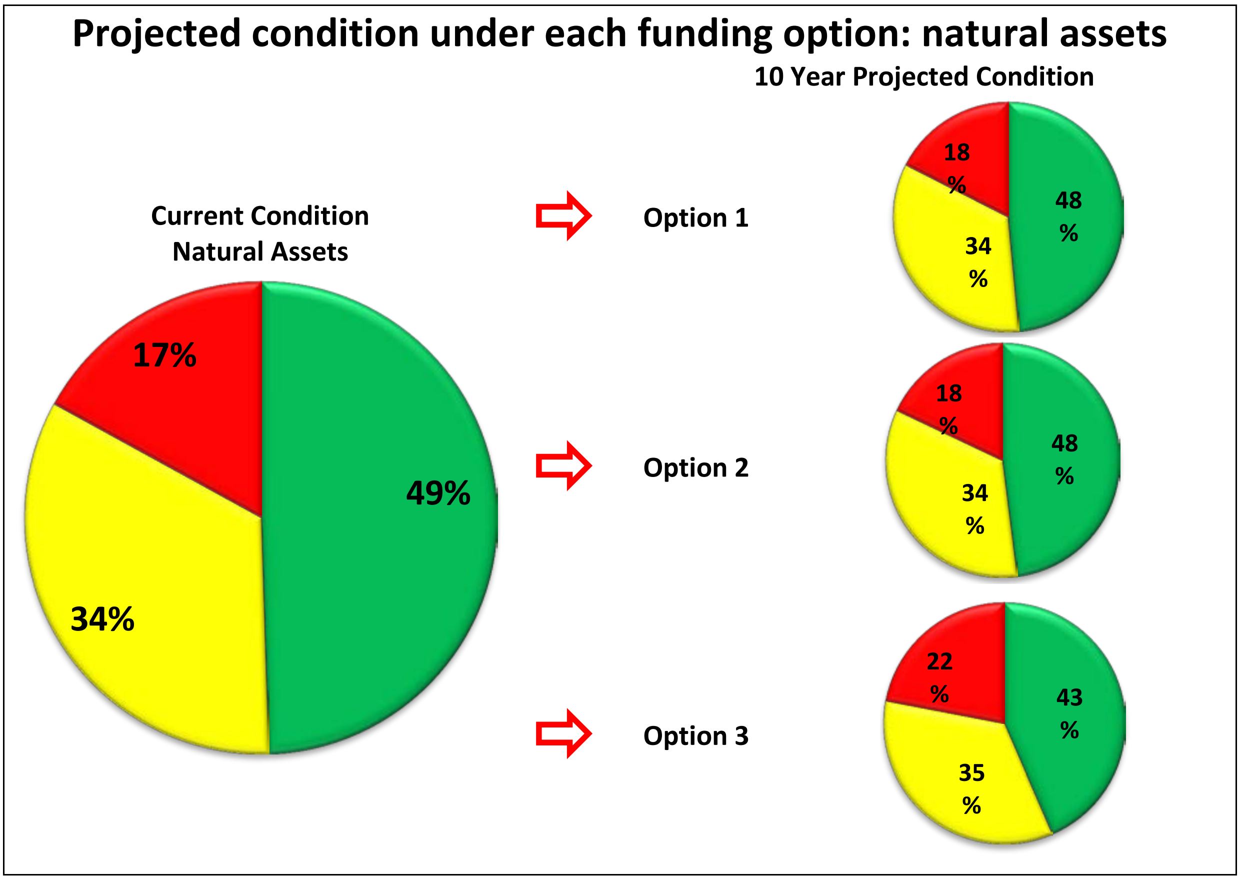

Figure 4-16: Projected condition under each funding option: natural assets

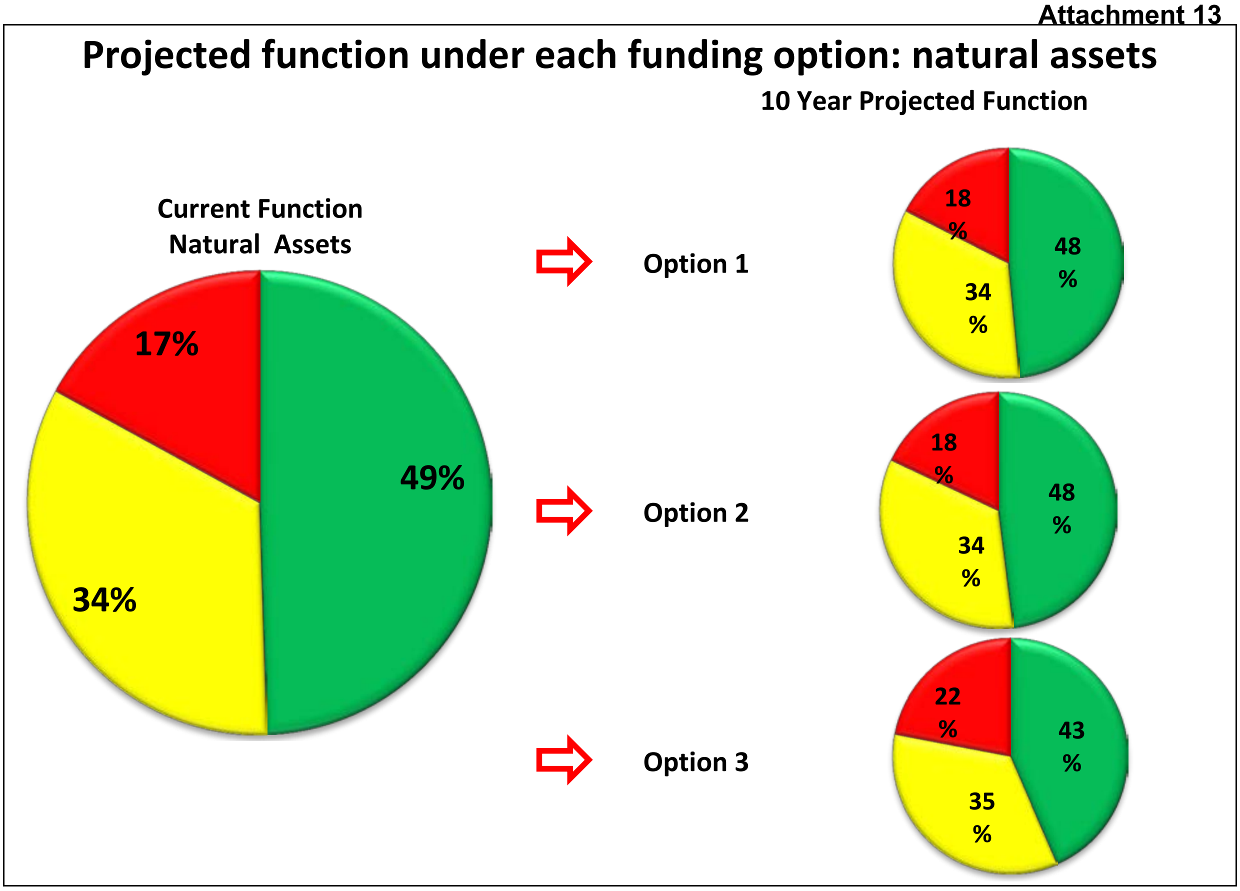

Figure 4-17: Projected function under each funding option: natural assets

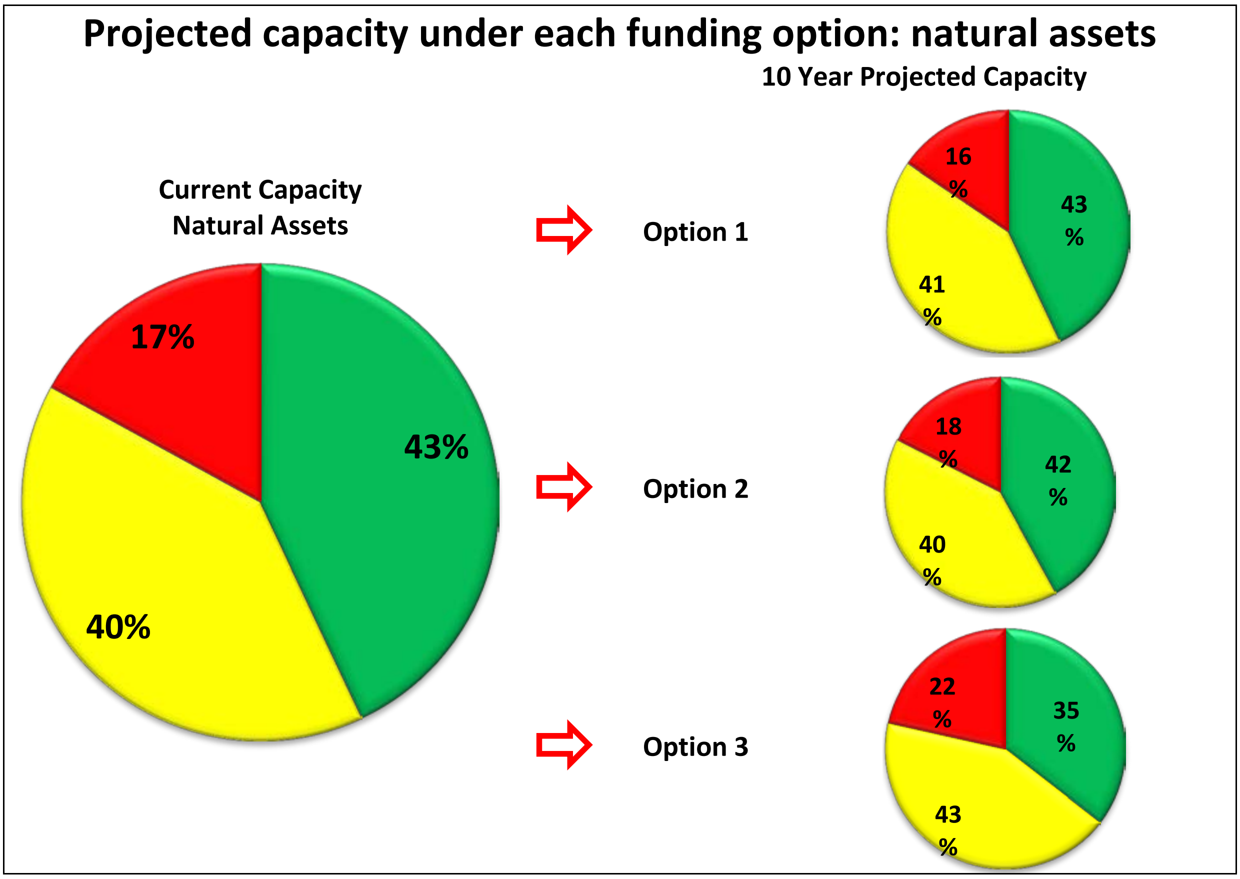

Figure 4-18: Projected capacity under each funding option: natural assets

The service level projections outlined in *Figure 4-13* to *Figure 4-18* above align with the comparison of projected renewal and maintenance as a percentage of asset value to the industry standard in *Table 4-9*. This also aligns with the Asset Renewal Ratio projections in the *LTFP* and shows that BMCC can, without a Special Variation, fund approximately half the renewal and less than half of the maintenance required to maintain current service levels using existing practices.

Table 4-9 Renewal and maintenance as a percentage of asset value

	Industry standard	BMCC LTFP 14/15*	10 Year Projected		
			Option 1	Option 2	Option 3
Renewal ratio	2%	1.13%	1.72%	1.16%	0.98%
Maintenance ratio	4%	1.75%	2.01%	1.92%	1.77%

In order to improve service levels and reduce risk, the Council needs to implement all six of the financial strategies outlined in the *LTFP* and invest in maintenance and renewal strategies that reduce lifecycle costs, reduce risk and improve asset function.

4.8.2 Adjust services

Council has committed to a program of ongoing service reviews assessing need and affordability to ensure that the services Council provides are appropriately targeted and provide best value for money.

4.9 Manage risk

Given that the Council must live within its available funding, any asset funding gap needs to be considered in the context of the affordable levels of asset service provision and the need to responsibly manage risk.

Asset management requires ongoing assessment of risks and prioritisation of available funding to address required action including possible closure of assets.

The Council has assessed the risks associated with its built and natural assets using the fundamentals of *International Standard ISO 31000: 2009 Risk Management* and *NAMS PLUS2* templates and methodologies. There is a process to ensure that all risks assessed as High or Very High are highlighted to Council's Governance and Risk Steering Group. This group has responsibility for assessing these risks and, where appropriate, highlighting them to the Council's independent external Audit Committee and to the Council.

Risks identified with a rating of 'high' or 'very high', relative to the management of the Council's assets, are included in the associated *Service Dashboards*, which form an integral part of this *Resourcing Strategy*.

The key risks facing all council asset based services are detailed in *Table 4-10*.

Table 4-10: Key risks to assets and responses

Category	Risk	Response
Inadequate maintenance and renewal	• Personal or property damage • Asset is not fit for purpose or of poor amenity impacting on local community and economy • Reduction in matching grant funding exacerbating impact • Short or long term closure of assets	• Prioritise available funding to reduce risk, minimise lifecycle costs and maximise service levels • Undertake inspections to ensure timely and cost effective rectification of defects • Close assets that pose an unacceptable threat of property or personal damage
Increase in asset base	• Assets transferred from other levels of government are not supported by funding for on-going maintenance. e.g. Crown Lands, Civil assets from NSW Roads and Maritime Services, Emergency Management assets such as Rural Fire Service buildings and Asset Protection Zones	• Advocate to state government against cost shifting • Ensure assets provided by other agencies meet minimum asset standards to reduce lifecycle costs
Natural disasters and other natural events	• Increases in natural disaster could result in new and/or increases to NSW Government statutory contributions to fund response negatively impacting funding for Council services • Natural disasters could impose costs to Council in response and recovery negatively impacting on funding available for other Council services • Council emergency management activities not adequately funded to respond in a way that reduces the impact on Council and community of natural disasters	• Advocate to state government against cost shifting for natural disaster recovery • Include conservative forecast cost increases in LTFP. Monitor changes and, If statutory contributions increase greater than projections in LTFP, identify and communicate service reductions and/ or risks for other services to ensure continuation of Council's own emergency management activities • Prioritise asset renewals or upgrades that assist in mitigating the impact of natural disasters • Ensure natural disaster claims are made in a timely manner

Category	Risk	Response
Increasing standards and legislative changes	• Available funding for Council services negatively impacted by increases in funding required to meet compliance requirements due to changing standards • Short or long term closure of assets that do not meet legislative compliance requirements	• Include forecast cost increases in LTFP to avoid future financial shocks • Prioritise available funding to reduce risk, minimise lifecycle costs and maximise service levels • Closure of assets that pose an unacceptable risk • Communicate to community any significant changes and implications for Council funding and services

Within available resources, the Council will prioritise and manage identified risks through appropriate funding allocations, inspections and condition assessments, ensuring risks are communicated to the audit committee and through asset closure or removal where required.

4.10 Asset Management Improvement Plan (AMIP)

Implementing the AMIP actions involves significant resources, but has strategic and corporate significance to the Council. The Council needs to ensure that sustainable management of assets is a 'whole of council' responsibility, and that this is recognised at all levels within the Council.

To ensure it meets core asset maturity Council will implement the AMIP across all its asset classes. The AMIP can be found in *Table 4-11.* A project plan to implement the AMIP will be developed annually. *SAMSC* will continue to track and monitor the implementation of the AMIP and will report on progress to Council's ELT.

The AMIP targets more than 20 actions to:

- Improve data confidence levels and measurement;
- Build in-house Asset Management capability;
- Report to Council on current and future service levels, lifecycle costs and risks to inform decision making;
- Enable *AMP's* to better inform and guide Council on asset needs and funding; and
- Better consult with the community on Asset Management priorities

Table 4-11: Asset management improvement plan

Improvement Area	ID	Action	Responsibility	Timeline	Funding Stream
Strategic Longer Term Plan		No action necessary to meet Core Maturity.			
Annual Budget	1	Improve linkages between annual budget and allocations in LTFP, AMP and CSP	IPF	December 2015	Funded Operationally
Annual Report	2	Incorporate Level of Service reporting for condition in annual report	Asset Planning	December 2015	Funded Operationally
	3	Incorporate Level of Service reporting for function and capacity in annual report	Asset Planning	June 2016	Funded Operationally
	4	Report implications of budget variations and functional changes on implementation of AMS and CSP as part of Special Schedule 7	Asset Planning	December 2015	Funded Operationally
Asset Management Policy	5	Draft document meets Core Maturity. Adopt draft document	Council	December 2014	Funded Operationally
Asset Management Strategy	6	Draft document meets Core Maturity. Adopt draft document	Council	December 2014	Funded Operationally
Asset Management Plans	7	Finalise service plans and service reviews and incorporate results iteratively into AMPs.	IPF/ Asset Planning	Ongoing	Funded Operationally
	8	Include consideration of possible effects of climate change on asset useful lives and maintenance costs in future versions of AMPs	Asset Planning	June 2016	Funded Operationally
	9	Develop methodology for each asset class to effectively measure asset performance and utilisation. Incorporate targets linked to levels of service	Asset Planning	June 2016	Funded Operationally
	10	Develop standards for maintenance, operations and renewal that meet required service standards	Asset Planning	June 2015	Funded Operationally
Governance and Management	11	Report to Council impacts on delivery of CSP, Service Plans AMP/AMS when planning for New or Upgrade of assets or changes to service levels	Asset Planning	June 2015	Funded Operationally
	12	Document process for making capital investment decisions linked to CSP, LTFP, AMS, AMPs and service plans	Asset Planning	June 2016	Funded Operationally
	13	Develop SAMSC endorsed	Asset	June 2015	Funded

Improvement Area	ID	Action	Responsibility	Timeline	Funding Stream
		schedule and compliance program for Strategic Asset Management linked to roles and responsibilities	Planning		Operationally
	14	Develop communication plan to communicate information on infrastructure service delivery issues and Councils management of these issues to external stakeholders	Asset Planning	June 2016	Funded Operationally
Levels of Service	15	Continue program of detailed community consultation and update service levels as required.	IPF	Ongoing	Funded Operationally
	16	Report Level of Service and progress against target Level of Service.	Asset Planning	June 2016	Funded Operationally
	17	Develop linkages between target community Level of Service and technical Level of Service	Asset Planning	June 2016	Funded Operationally
Data and Systems	18	Continue implementation of Asset Management System for remaining asset classes	Asset Planning	September 2014	1 EFT - funded
	19	Improve method to allocate and report on operating and maintenance costs for all assets and services	Finance	June 2016	Funded Operationally
	20	Continue program to improve data confidence levels for current service levels	Asset Planning	June 2016	Funded Operationally
Skills and Processes	21	Develop procedures to update, reconcile and link asset data across systems	Asset Planning	June 2016	Funded Operationally
	22	Continue development of procedures so that asset condition assessments drive maintenance and renewal strategies	Asset Planning	June 2016	Funded Operationally
	23	Improve risk communication methodology to ensure technical and management decisions are based on consistent risk assessments	Governance and Risk	June 2016	Funded Operationally
Evaluation	24	Report progress against AMIP and SAMSC performance measures 6 monthly to ELT/ GRSG and as required by exception	Asset Planning	June 2016	Funded Operationally

4.11 Asset Management Policy

Document Status and Version Control

Ownership and Version Control

Responsible Directorate/Group:	*City and Community Outcomes*
Contact Position:	*Program Leader Strategic Asset Management*
GRSG Meeting Date:	*TBA*
Council Meeting Date:	*TBA*
Minute No:	*Enter Minute No.*
Policy Ref. No:	*This information (number) is from the Pathway Policy Register.*
TRIM Record No:	*F08036*
Distribution: *(Consultation may be required)*	*Public*
Status:	*Draft Stage Awaiting Adoption*
Lifespan:	*The Policy will be reviewed every four years or following significant changes to internal or external context of the Blue Mountains City Council to ensure the policy is current, effective and continuously improved.*
Scope:	*This policy applies to all Council activities*

Version History

Version	Adoption Date	Reason for Change
2.0	TBC	Update to Resourcing Strategy in line with BMCC standard Policy format

PREAMBLE

The Blue Mountains City Council is responsible for more than $1.2 billion of built and natural assets that support its delivery of a range of services to the community. For a population of approximately 78,000 residents, the Council has an extensive and aging asset portfolio with many service duplications due to the ribbon-like development of the city.

Council is on a journey to build a strategic integrated planning approach for asset management to deliver the highest affordable level of service through its management of assets. This will provide positive outcomes for:

- Members of the public and staff;
- Council's financial position;
- The ability of Council to deliver the expected level of service and infrastructure;
- The political environment in which Council operates; and
- The legal liabilities of Council.

Blue Mountains City Council has measured its ability to meet Core Asset Management Maturity. Details of the assessment can be found in the Asset Management Strategy. The Asset Management Strategy also details an Asset Management Improvement Plan that shows how Council will move towards core maturity. Once core maturity is reached each part of this Policy will be being implemented in its entirety.

Adopting sound asset management principles will assist Council in achieving its Strategic Longer-Term Plan and Long Term Financial objectives.

This overarching Council endorsed Asset Management Policy forms part of the adopted Resourcing Strategy and is developed to meet essential elements of the NSW Integrated Planning and Reporting Guidelines.

Related Documents

This document should be read in conjunction with:

- Community Strategic Plan: Sustainable Blue Mountains 2025

This document forms part of the Blue Mountains City Council Resourcing Strategy which includes the following:

- Long Term Financial Plan;
- Asset Management Strategy;
- Asset Management Policy;
- Asset Management Plans; and
- Workforce Management Strategy

Related Legislation

- *Local Government Act 1993*
- *Local Government Amendment (Planning and Reporting) Act 2009*
- *Local Government (General) Regulation 2005*

PURPOSE

To ensure that the City's assets are managed to be fit for purpose, safe and sustainably funded and support the delivery of services to the community through a comprehensive and integrated planning framework.

OBJECTIVES

To ensure resources are allocated by Council in a sustainable manner to provide agreed services to meet current and future needs through:

1. Managing Council assets, including physical assets and employees, by implementing appropriate and prioritised asset management strategies;
2. Ensuring all staff and persons working on behalf of Council are aware of and take part in sustainable asset management practices by implementing actions in accordance with the Asset Management Strategy;
3. Meeting legislative requirements for asset management;
4. Demonstrating transparent and responsible asset management processes that aligns with best affordable practices; and
5. Maximising value for money through the adoption of lifecycle costing, combined with performance measurement, risk assessments and prioritised community needs.

DEFINITIONS

Asset Management: The systemic and coordinated activities and practices of an organisation to optimally and sustainably deliver on its objectives through cost-effective lifecycle management of assets[8]

Asset Management System: Organisational structure, policies, plans, roles, responsibilities, processes, procedures, Asset Management Information System, etc. that assist the Council to provide needed services from its assets[9]

Asset Management Maturity: Organisation's maturity in adopting the core asset management competencies set out in the Local Government and Planning Ministers' Council Local Government Financial Sustainability Nationally Consistent Frameworks (LGPMC Financial Sustainability Frameworks 2009)[10]

Core Asset Management Maturity: The Asset Management Maturity level required to implement the LGPMC Financial Sustainability Frameworks. The National Assessment Framework includes a 'core' and 'advanced' maturity assessment. The 'core' maturity questions have been developed to meet the LGPMC Financial Sustainability Frameworks maturity level[11].

[8] International Infrastructure Management Manual Edition 4.0 2011 produced by Institute of Public Works Engineering (IPWEA) and NAMS New Zealand
[9] ISO 55000:2014 Asset Management – Overview, principles and terminology
[10] IPWEA NAMS.PLUS2Asset Management A Guided Pathway to Asset Management Planning version 2.8, 2013 produced by Institute of Public Works Engineering (IPWEA)
[11] Champion, C. & Patterson, L. 2012. National Assessment Frameworks For Local Government Asset Management and Financial Planning Implementation Proposal Paper

Lifecycle cost: The total cost of an asset throughout its life including planning, design, construction, acquisition, operation, maintenance, rehabilitation and disposal costs [12]

RESPONSIBILITIES

The Council is responsible for ensuring that organisational resources are appropriately utilised to address the organisation's strategic plans and priorities by:

1. Adopting this policy;
2. Providing high level oversight of the delivery of the organisation's assets management strategy and plans; and
3. Maintaining accountability mechanisms.

The **General Manager** has overall accountability for the development of this Policy and the related Asset Management Strategy and Plans and reporting on the status and effectiveness of asset management to Council.

The **Strategic Asset Management Steering Committee** has responsibility for development and implementation of this Policy and the related Asset Management Strategy and Plans.

All staff or persons working on behalf of Council are required to adhere to the Policy Statements, Strategies and Procedures outlined in this Policy and associated Strategies and Plans.

POLICY STATEMENT

The Council is committed to implementing an Asset Management System that ensures assets are planned, created, operated, maintained, renewed and disposed of in accordance with Council's priorities for service delivery and risk management, in particular:

1. Asset management will be based on risk and best value service delivery and will consider the full lifecycle cost and benefit of assets and services;
2. Affordable service levels meeting assessed community needs will be determined in consultation with the community;
3. Asset Management Plans will be developed and maintained for major service and asset categories and will be informed by *Sustainable Blue Mountains 2025*, community consultation and financial planning and reporting;
4. All relevant legislative requirements and industry standards together with political, social, economic, environmental and governance requirements will be taken into account in asset management;
5. The provision of resources to deliver asset management and agreed service levels will be integrated with corporate and business planning, budgetary and reporting processes;
6. An inspection regime will be used as part of asset management to mitigate risks, ensure agreed service levels are maintained and to identify asset renewal priorities;
7. Systematic and cyclic reviews will be applied to all asset classes to ensure that the assets are managed, valued and depreciated in accordance with appropriate best practice and applicable Australian Standards;
8. Future life cycle costs will be reported and considered in all decisions relating to new services and assets and upgrading of existing services and assets;

[12] Australian Infrastructure Financial Management Guidelines Edition 1.0 2009 produced by Institute of Public Works Engineering (IPWEA)

9. Council will meet and apply the requirements for Core Asset Management Maturity and commits to continuous improvement of its Asset Management System to achieve this;
10. Training in asset and financial management will be provided for councillors and relevant staff;
11. Asset and Asset Management performance including risks and service levels will be reported to Council.

This Policy is designed to follow the requirements of NSW Integrated Planning and Reporting Guidelines, the International Infrastructure Management Manual 2011 and ISO55000, ISO55001 and ISO55002 and is adopted from the NAMS Asset Policy Template.

4.12 ASSET WORKS PROGRAM 2014- 2024

Asset Works Program – Option 1

Type / Service	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Renewal										
Aquatic & Leisure Centres				280,000		1,190,000				
Burials & Ashes Placement	51,000	53,000	54,000	55,000	57,000	58,000	60,000	62,000	64,000	66,000
Commercial Activities	262,500	120,000	67,500							
Community Development	1,923,044	55,000	110,000	390,000	103,000	318,270	90,000	112,551		179,405
Cultural development				110,000			243,000			
Emergency Management			150,000	159,000	168,540	178,652	189,372	200,734	212,778	225,545
Libraries & Information					150,000	150,000				
Administrative Property Portfolio				450,000	350,000	50,000	200,000			
Sport & Recreation - Natural Area Visitor Facilities	256,000	248,400	375,800	537,200	734,467	853,639	1,009,828	1,178,178	688,355	1,019,142
Sport & Recreation - Recreation Facilities	203,000	103,000	291,000	510,000	1,126,400	747,786	1,168,968	875,895	1,088,174	881,514
Town Centres	115,000	120,000	124,000	127,000	220,000	131,000	135,000	139,000	296,982	148,000
Transport & Public Access	2,136,463	2,063,247	2,402,044	3,388,595	4,072,357	3,957,722	4,629,129	4,699,932	4,393,429	5,040,527
Water Resource Management	190,000	100,000	259,000	190,000	404,500	393,635	459,135	409,909	481,006	472,437
Total Renewal	**5,137,007**	**2,862,647**	**3,833,344**	**6,196,795**	**7,386,264**	**8,028,704**	**8,184,432**	**7,678,198**	**7,224,724**	**8,032,569**
Upgrade/ New										

Type / Service	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Aquatic & Leisure Centres		8,000	8,000	8,000	8,000	8,000	8,000	1,278,000	8,000	8,000
Commercial Activities	2,462,500	120,000	67,500							
Community Development	7,244,174	8,000	8,000	218,000	33,750	8,000	245,318	8,000	36,982	148,000
Libraries & Information		8,000	8,000	8,000	633,750	608,000	35,318	8,000	36,982	8,000
Administrative Property Portfolio	70,000	8,000	8,000	8,000	208,000	208,000	8,000	8,000	8,000	8,000
Sport & Recreation - Recreation Facilities		8,000	98,000	378,000	520,250	361,045	217,601	491,594	230,341	401,998
Town Centres	1,000,000				163,750		27,318		258,455	
Transport & Public Access	170,000		470,000	223,600	790,308	357,217	794,334	251,664	879,414	522,051
Waste Resource Management	4,700,000			2,000,000						
Water Resource Management	20,000			160,000	400,000	320,000	400,000	160,000	400,000	320,000
Total Upgrade New	**15,666,674**	**160,000**	**667,500**	**3,003,600**	**2,757,808**	**1,870,262**	**1,735,888**	**2,205,258**	**1,858,173**	**1,416,049**
Operational Capital e.g. Fleet/ IT										
Operational Support Services	5,033,066	4,372,708	4,603,889	4,689,006	4,948,176	5,296,622	5,249,519	5,221,242	6,027,880	5,539,215
Waste Resource Management		737,000		520,000	520,000	520,000	520,000	520,000	520,000	520,000
Total Operational Capital	**5,033,066**	**5,109,708**	**4,603,889**	**5,209,006**	**5,468,176**	**5,816,622**	**5,769,519**	**5,741,242**	**6,547,880**	**6,059,215**
Total Capital Expenditure	**25,836,747**	**8,132,355**	**9,104,733**	**14,409,401**	**15,612,249**	**15,715,589**	**15,689,840**	**15,624,698**	**15,630,776**	**15,507,833**

Asset Works Program – Option 2

Type/ Service	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Renewal										
Aquatic & Leisure Centres				280,000		1,190,000				
Burials & Ashes Placement	51,000	53,000	54,000	55,000	57,000	58,000	60,000	62,000	64,000	66,000
Commercial Activities	262,500	120,000	67,500							
Community Development	1,923,044	55,000	110,000	100,000	103,000	218,450		238,799		261,257
Cultural development				110,000			120,000			
Emergency Management			90,000	95,400	101,124	107,191	113,623	120,440	127,667	135,327
Administrative Property Portfolio				450,000	300,000		200,000			
Sport & Recreation - Natural Area Visitor Facilities	256,000	248,400	345,800	325,725	722,585	727,327	614,291	473,644	407,275	399,811
Sport & Recreation - Recreation Facilities	203,000	103,000	251,000	430,000	787,200	544,771	718,199	624,359	685,809	675,775
Town Centres	115,000	120,000	124,000	127,000	128,000	131,000	135,000	139,000	296,982	148,000
Transport & Public Access	2,136,463	2,063,247	2,539,507	3,446,819	3,865,179	3,791,088	4,286,329	4,124,800	3,836,403	4,080,185
Water Resource Management	190,000	100,000	150,000	150,000	230,000	240,000	385,000	280,000	300,000	430,000
Total Renewal	**5,137,007**	**2,862,647**	**3,731,807**	**5,569,944**	**6,294,088**	**7,007,827**	**6,632,442**	**6,063,042**	**5,718,134**	**6,196,356**
Upgrade/ New										
Aquatic & Leisure Centres		8,000	8,000	8,000	8,000	8,000	8,000	908,000	8,000	8,000
Commercial Activities	2,462,500	120,000	67,500							
Community Development	7,244,174	8,000	8,000	20,500	8,000	28,000	8,000	29,218	8,000	30,510

Type/ Service	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Libraries & Information		8,000	8,000	20,500	8,000	28,000	8,000	29,218	8,000	30,510
Administrative Property Portfolio	70,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Sport & Recreation - Recreation Facilities		8,000	8,000	20,500	318,000	187,200	8,000	206,818	8,000	226,910
Town Centres	1,000,000			12,500		20,000		21,218	229,473	22,510
Transport & Public Access	170,000		60,000	61,800	623,654	185,564	392,531	69,556	491,843	73,792
Waste Resource Management	4,700,000			2,000,000						
Water Resource Management	20,000				210,000		245,000			280,000
Total Upgrade New	**15,666,674**	**160,000**	**167,500**	**2,151,800**	**1,183,654**	**464,764**	**677,531**	**1,272,028**	**761,316**	**680,232**
Operational Capital e.g. Fleet/ IT										
Operational Support Services	5,033,066	4,372,708	4,603,889	4,689,006	5,148,176	5,096,622	5,249,519	5,221,242	6,027,880	5,539,215
Waste Resource Management		737,000		520,000	520,000	520,000	520,000	520,000	520,000	520,000
Total Operational Capital	**5,033,066**	**5,109,708**	**4,603,889**	**5,209,006**	**5,668,176**	**5,616,622**	**5,769,519**	**5,741,242**	**6,547,880**	**6,059,215**
Total Capital Expenditure	**25,836,747**	**8,132,355**	**8,503,196**	**12,930,750**	**13,145,919**	**13,089,213**	**13,079,492**	**13,076,312**	**13,027,330**	**12,935,803**

Asset Works Program – Option 3

Type/ Service	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Renewal										
Burials & Ashes Placement	51,000	53,000	54,000	55,000	57,000	58,000	60,000	62,000	64,000	66,000
Commercial Activities	262,500	120,000	67,500							
Community Development	1,923,044	55,000		100,000		215,090		435,638		372,680
Emergency Management						50,000	150,000	154,500	159,135	163,909
Administrative Property Portfolio				150,000	150,000	400,000				
Sport & Recreation - Natural Area Visitor Facilities	256,000	100,000	103,000	150,000	154,500	159,135	273,909	415,000	170,000	520,000
Sport & Recreation - Recreation Facilities	203,000	40,000	165,600	66,350	286,741	69,173	492,191	193,185	322,988	304,597
Town Centres	115,000	120,000	124,000	127,000	128,000	131,000	135,000	139,000	144,000	148,000
Transport & Public Access	2,136,463	2,231,247	2,081,224	2,392,551	2,294,813	2,280,281	2,382,404	2,317,179	2,485,587	2,591,201
Water Resource Management	190,000		165,000	150,000	154,500	159,135	163,909	300,000	170,000	300,000
Total Renewal	**5,137,007**	**2,719,247**	**2,760,324**	**3,190,901**	**3,225,553**	**3,521,813**	**3,657,413**	**4,016,503**	**3,515,710**	**4,466,388**
Upgrade/ New										
Aquatic & Leisure Centres		8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Commercial Activities	2,462,500	120,000	67,500							
Community Development	7,244,174	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Libraries & Information		8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Administrative Property Portfolio	70,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000

Type/ Service	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Sport & Recreation - Recreation Facilities		8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Town Centres	1,000,000									
Transport & Public Access	170,000									
Waste Resource Management	4,700,000			2,000,000						
Water Resource Management	20,000									
Total Upgrade New	**15,666,674**	**160,000**	**107,500**	**2,040,000**	**40,000**	**40,000**	**40,000**	**40,000**	**40,000**	**40,000**
Operational Capital e.g. Fleet/ IT										
Operational Support Services	5,033,066	4,326,727	4,413,262	4,501,527	4,591,558	4,683,389	4,777,057	4,872,598	5,620,050	5,069,451
Waste Resource Management		737,000		520,000	520,000	520,000	520,000	520,000	520,000	520,000
Total Operational Capital	**5,033,066**	**5,063,727**	**4,413,262**	**5,021,527**	**5,111,558**	**5,203,389**	**5,297,057**	**5,392,598**	**6,140,050**	**5,589,451**
Total Capital Expenditure	**25,836,747**	**7,942,974**	**7,281,086**	**10,252,428**	**8,377,112**	**8,765,203**	**8,994,470**	**9,449,100**	**9,695,761**	**10,095,838**

5: **Workforce Management Strategy** 2014- 2024

5.1 Overview

The Department of Local Government advocates workforce planning to help ensure that the community's strategic goals are met. The development of an effective workforce management strategy will enable Council to focus on the medium and long term and also provide a framework for dealing with immediate challenges in a consistent way.

An effective workforce strategy aims to provide Council with the people best able to inform its strategic direction, develop innovative approaches to complex issues and deliver appropriate services – effectively and efficiently.

The benefits of ensuring a diverse workforce include better local representation, improved communication and a better understanding of the issues affecting local communities. It also means that there is an optimal pool of workers in place to address the issues facing councils. These issues include skills shortages, ageing workforce and business succession planning, as well as the challenges involved in invigorating local communities and economies.

When developing Council's *Workforce Management Strategy 2014-2024*, strategic issues to consider included the analysis of council's workforce requirements based on the commitments in the *Community Strategic Plan* and *Delivery Program*. This involved developing an appropriate workforce structure to meet those objectives, encapsulating workplace equity and diversity as a tool to benefit Council, strengthening Council's workplace governance, and supporting and developing Council staff.

The *Workforce Management Strategy* 2014-2024 is consistent with, and aligned to, the Department of Local Government's integrated planning and reporting requirements and is a key component of the Council's *Resource Strategy*. It is strongly aligned and integrated with our *Asset Management Strategy* and *Long Term Financial Plan*.

Overall, the *Resource Strategy* determines Council's capacity to manage its finances, its assets and its workforce in delivering the programs and priorities in our Community Strategic Plan - *Sustainable Blue Mountains 2025*.

5.2 Scope and Purpose

Blue Mountains City Council's *Workforce Management Strategy 2014-2024* takes a long-term view determining the workforce needs over a 10-year horizon. This is to ensure Council's workforce is structured to respond to and has the capacity to deliver the programs and priorities in our Community Strategic Plan - *Sustainable Blue Mountains 2025*.

The purpose of the WMS strategy is to provide the platform to identify, consider and respond to the significant issues and risks facing the organisation now and into the future. In particular, it takes into account the increasing financial pressures facing the Council by strategically positioning our workforce to respond quickly to changing needs of the organisation. Ultimately, implementation of

the strategy will deliver a highly safe, skilled and engaged workforce that provides "value for money" services to the Blue Mountains community.

5.3 Workforce Challenges

5.3.1 Technology

Tomorrow's workplace will look very different to that of the past – the desk-per-employee office model is fast becoming a thing of the past.

While the need for human recognition and interaction will remain, the tools used will continue to change dramatically, thanks to technological advances. As they continue to emerge at an increasingly rapid pace, it will be these advances that will most directly affect the workplace.

Around the world, the dominant driver of this phenomenon is the expanding connectivity capability for individuals, communities and business. More and more, this ease of connectivity is allowing people to deliver and access services, obtain information and perform transactions – anytime, anywhere. At the same time, outmoded traditional sources are being undermined and discarded. In Australia, the roll-out of the NBN will strengthen this trend.

An important consideration is people's ability to adapt. For organisations, it is imperative that this ability is harnessed effectively.

5.3.2 Ageing population

It is no secret that Australia, like many other countries, has an ageing population. The City of the Blue Mountains is no exception. In fact, the Blue Mountains has a reasonably static population with a greater proportion of people over 50 years than those LGAs in the Sydney Basin. The census data highlights the increase in people over 50 years of age, particularly those between 50 and 65. At the same time, there has been a decline in the number of residents under 50 years of age – in particular, in the 18 to 24-years-old group. The 2011 Census data shows a continuation of this trend.

Despite the inherent challenges of an ageing population, this trend can provide an opportunity for the City – by better utilising the wealth of skills, knowledge and wisdom of the older generation, our community can reap added benefits.

5.3.3 Superannuation changes

In an effort to increase benefits to Australians on retirement, the Australian Government has introduced the *Superannuation Guarantee (Administration) Amendment Act 2012* (SGC), which has increased employer obligations in regards to superannuation for all employees. The SGC contribution recently increased from 9.0% to 9.5% and will continue to increase as follows:

- July 2014 – 9.5%
- July 2015 – 9.5%
- July 2016 – 9.5%
- July 2017 – 9.5%
- July 2018 – 10%
- July 2019 – 10.5%
- July 2020 – 11%
- July 2021 – 11.5%
- July 2022 – 12%

These increases are to be met by the employer and will increase the employment costs to Council substantially. The current annual superannuation cost to Council is approximately $3.25M. While these increases are to be phased in over time, moving to a 12% SGC will increase the organisation's overall superannuation bill by approximately $1.0M annually – a 30% increase.

5.3.4 Salary increases

A new Local Government (State) Award has recently been negotiated for the next three years. The new Award provides for the following wage increases: 2.6% at 1 July 2014; 2.7% at 1 July 2015; and 2.8% at 1 July 2016. These increases add approximately $1.0M to the annual wages bill (in today's terms).

5.3.5 Safety laws

The process to harmonise safety laws and regulations across Australia took effect on January 2012. In NSW, this consisted of the *Work Health & Safety (WHS) Act 2011,* and the Work Health and Safety Regulations 2011, along with the Codes of Practice. The purpose of harmonising the work health and safety laws throughout Australia was to:

- Provide a consistent level of safety for all Australian workers while maintaining existing standards
- Ensure all involved in work have a duty of care by moving away from the employment relationship as the basis of obligations
- Enhance protection against discrimination, coercion, inducement and misrepresentation
- Broaden rights for representation, including union right of entry to workplaces
- Make provision for graduated enforcement, with alternative options for WHS improvement
- Significantly increase the maximum fines and introduce categories of offence

For the Council, it was determined an assessment of the safety management systems and processes was prudent to determine compliance with the new laws. An independent third party was engaged to undertake a comprehensive gap analysis of the safety management systems and processes within the organisation. This work culminated in the development of an improvement plan, which is being implemented over a three-year timeframe. The cost of implementing the improvement plan is in the order of $1.0M, however, it will guarantee compliance with the new WHS laws.

5.3.6 Workers compensation

In June 2012, the NSW Government introduced changes to the Workers Compensation Scheme in NSW. While the reforms improve the return to work process, the key driver of the reform is to return the scheme to financial sustainability without large increases in employer premiums.

It is the responsibility of individual organisations to effectively manage their Workers Compensation costs and Injury Management processes, the scheme's ongoing viability needs due consideration in the context of workforce planning, as any future increases are likely to be substantial and have a major cost impact.

In anticipation of future premium increases, Blue Mountains City Council has undertaken a major review into its Workers Compensation and Injury Management processes. This exercise led to the organisation being admitted into WorkCover NSW's Retro-Paid Loss Scheme in 2011. While participation in this scheme requires a more proactive management approach, it has seen a significant reduction in workers compensation premiums in the order of 60% and is delivering savings to the organisation in excess of $1.0M annually.

5.3.7 Work organisation

While the development of an effective resourcing strategy is critical, the way in which resources are organised and deployed is vital to ensuring the effective and efficient delivery of any strategy. As such, a comprehensive review of the organisational structure was undertaken in 2011, resulting in a change in the delivery model designed specifically to:

- Better support the delivery of the organisation's delivery plans in response to the Community Strategic Plan
- Improve and strengthen service delivery and responsiveness within our financial capacity
- Clarify accountability for strategy, outcome setting and operational activities
- Reinforce continuous improvement and innovation and minimise risk across the organisation

As part of the development of the current four-year delivery plan, a further review was undertaken in 2013 to ensure alignment is maximised between activity and strategy. This process has involved consultation with the stakeholders and the workforce.

5.4 Council's Long Term Financial Strategy 2014-24

Underpinning, and driving, the *Workforce Management Strategy* is Council's adoption of a responsible financial strategy to ensure Council is viable over the long term (*Long Term Financial Strategy*). The key to this strategy is the development of a focused six-pronged approach to achieve financial sustainability for the organisation. This approach has a series of actions under each of the following areas:

1. Avoid shocks
2. Balancing the budget
3. Managing borrowings responsibly
4. Increasing income
5. Review and adjust services
6. Increasing advocacy and partnerships

In response to the outcomes of these strategies we are continuing development of a highly skilled, flexible and engaged workforce to respond appropriately to either improving, decreasing or maintaining service levels.

5.5 Workforce Profile

5.5.1 At a glance

Blue Mountains City Council has a highly flexible workforce made up of the following:

- 49% permanent full-time employees
- 18% permanent part-time employees
- 26% casual employees
- 7% temporary employees

Table 5-1 Percentage of workforce by key direction

Key Direction	% of Workforce	Services	Skill level
Looking after Environment	16%	Natural Environment Waste Resource Management Water Resource Management	Professional – Degree Para-Professional – Associate Diploma Pre Trade – Cert II & III Admin – Cert II & III
Using Land	13	Burials & Ashes Placement Building Certification Land Use Management	Professional – Degree Para-Professional – Associate Diploma Pre Trade – Cert II & III Admin – Cert II & III
Moving Around	8%	Transport & Public Access Town Centres	Professional – Degree Para-Professional – Associate Diploma Pre Trade – Cert II & III Admin – Cert II & III
Looking after People	30%	Aquatic & Leisure Centres Blue Mountains Cultural Centre Community Development Cultural Development Emergency Management Environmental Health & Regulatory Compliance Family Day Care Libraries & Information Sport & Recreation	Professional – Degree Para-Professional – Associate Diploma Post Trade – Diploma Trade – Cert IV Pre Trade – Cert II & III Admin – Cert V Admin – Cert II & III
Sustainable Economy	5%	Economic Development & Tourism Commercial Activities	Professional – Degree Para-Professional – Associate Diploma Admin – Cert II & III
Civic Leadership Strategic	13%	Corporate Planning & Reporting Governance & Risk Asset Planning City-wide Strategic Planning	Professional – Degree Para-Professional – Associate Diploma Post Trade – Diploma Trade – Cert IV Pre Trade – Cert II & III Admin – Cert V Admin – Cert II & III
Civic Leadership Operational	15%	Finance Management People & Safety Information Solutions Corporate Communications & Marketing Administrative Property Portfolio Central Warehousing & Purchasing Customer Service Fleet	Professional – Degree Para-Professional – Associate Diploma Post Trade – Diploma Trade – Cert IV Pre Trade – Cert II & III Admin – Cert V Admin – Cert II & III

5.5.2 Employment costs

A significant component of the Council delivering high quality services to the community are the employment costs associated with the establishment and development of a highly skilled and responsive workforce. Some 45% of the current operational expenditure (excluding capital expenditure) costs are employment costs, which have remained reasonably static over time due to the nature of Council's operations. That said, the actual cost of the workforce continues to increase at a far greater rate than the organisation's revenue capability.

While a solution would be to simply reduce the size of the workforce, this is highly problematic, as there is a direct correlation between employment costs and service levels. Essentially, any reduction in staff numbers will lead to a reduction in the level of service.

The drivers of increased employment costs are predominately external factors outside the control of Council such as wage increases, superannuation increases, workers compensation costs, sick leave and leave entitlements. These increases in employment costs have been factored into *Council's Long Term Financial Plan.*

The key premise of Council's *Workforce Management Strategy* is to maximise workforce productivity by **ensuring a highly safe, skilled and engaged workforce**. Such a holistic approach has a significant flow-on effect and leads to a reduction in turnover, workers compensation costs, leave liabilities and absenteeism – all of which impacts positively on both costs and levels of service.

Pragmatically, this can be best evidenced with Council's requirement, over recent years, to deliver activities previously provided by other tiers of government, without increasing the overall size of the workforce. As discussed later in this section, the factors mentioned above will also produce real savings of significant order.

5.5.3 Age

Good practice suggests the optimum demographic of any workforce should be reflective of the community in which it serves. As a Local Government organisation and the largest employer in the Blue Mountains, the Council takes such responsibility seriously. As the most significant demographic characteristic is the ageing of the population profile and given that 90% of the workforce lives locally, this provides unique challenges and risks for the organisation.

60% of the Blue Mountains City Council workforce are over 45 years of age and of this component 30% are over 55 years of age. At the same time, only 14% of the workforce is under the age of 35 with less than 3% under 24.

As the data shows, the age demographic impacts the workforce at both ends of the employment cycle. It is therefore critical to develop strategies to attract younger staff members while also developing programs to encourage and extend the baby-boomer generation in employment.

5.5.4 Length of service

Length of service is closely aligned to age and stability of the workforce. A stable workforce supports the organisation's ability to maintain continuity of existing relationships and understand the needs of the community more effectively. On the other hand a static workforce can become a weakness if they become less innovative, creative and flexible in responding to the needs of the community and environment. The development of strategies that allow the workforce to maintain creativity and respond in innovative and flexible ways are a vital component of the workforce strategy.

The current length of service profile for men at Blue Mountains City Council has been stable over the past 3 years with 50% being with the organisation less than 10 years, 35% between 10 and 20 and 15% over 20 years.

Sixty % of the female component of our workforce has been with the organisation less than 10 years, 30% between 10 and 20, with 10% over 20 years. This represents a 10% increase in the less than 10-year category and a 10% decline in the 10 to 20-year category in the last three years.

5.5.5 Diversity

Diversity refers to the workforce participation of different groups within our society. Attracting these cohorts into employment is therefore critical in achieving an organisation that is truly reflective of the community it represents and serves. Presently, only 48% of the workforce is female and less than 3% identify as Aboriginal.

At Blue Mountains City Council, the development of a wide-ranging *Workforce Participation Strategy* in 2010 – which positions Council as leader in such programs – is a strong demonstration of Council's civic leadership responsibilities. The Blue Mountains City Council *Workforce Participation Strategy* has a vision "*to be recognised as a leader in workforce participation programs"* and has four core components:

1. Aboriginal Employment
2. Women in the Workforce
3. People with a Disability
4. Economically Disadvantaged

A phased approach has been adopted to ensure effective delivery of the overall strategy. To date, the Aboriginal Employment component has been developed and is currently being implemented. A key element of the development of this program has been the extensive consultation with the Aboriginal community of the Blue Mountains.

5.5.6 Employee retention

Retention of the workforce is not only a key measure of the overall health of the workforce, but is also a key driver in effectively managing employment costs. In recent years, retention rates have improved significantly and are well ahead of the industry average, suggesting the impact of the overall *Workforce Management Strategy* is starting to pay dividends.

Historically, Council's retention rate has fluctuated between 85% and 90%. However, in recent years there has been significant improvement and is currently tracking better than 97%. Conservative estimates place the cost associated with an employee leaving an organisation at the equivalent to the annual cost of the individuals' salary. In a workforce of 500 permanent employees a 1% change represents five employees. At an average salary of $50,000 – an improvement of 1% delivers a saving of $250,000. In the past five years there has been an improvement in retention of some 10%, which represents a saving in the order of $2.5M to the community.

5.5.7 Skills & competencies

Ensuring up-to-date skills and competencies is essential to the ongoing effectiveness and performance of the organisation in serving the Blue Mountains community. A skills audit in 2007 revealed, that despite a worldwide shortage in experienced Town Planners, Engineers and Building Surveyors, there was significant depth in these technical areas within BMCC. However, there were significant gaps in the areas of project management, business planning, management and leadership.

In 2007, Blue Mountains City Council developed and implemented a critical skills shortage strategy to fill identified skill gaps in the workforce. This strategy has been successful in filling the gap in the technical areas mentioned above.

The revised workforce strategy identifies the need to undertake another skills analysis due to the changing landscape. The strategy is also now focusing on the non-technical areas and several initiatives are designed to strengthen these areas.

The design and implementation of the Learning Management System (LEARN) is allowing the organisation to take a more sophisticated and planned approach to resource planning and employee development.

5.5.8 Behaviours & culture

Contemporary organisational knowledge now acknowledges the importance of values and behaviour in building a strong high performing organisational culture.

Hewitt is an Australian organisation, which has been studying the attributes of high performing organisations for over two decades. They believe: *"a high level of trust is necessary to ensure employees commit and engage with the organisation's purpose, values, and vision"*. The compelling outcome of the ANZ Hewitt research is that high performing organisations continually have a 30% better bottom line results when compared to average organisations. When coupled with the tightening labour markets and the increasing cost of labour, organisations need to focus on the existing workforce and design and implement strategies that deliver a highly skilled and engaged workforce to ensure the productivity of the workforce is maximised.

At Blue Mountains City Council this is the central tenet of our *Workforce Management Strategy.*

5.6 Strategies and actions

The Office of Local Government (OLG) has identified six key strategic workforce issues that will require consideration in any workforce strategy to ensure a resilient and sustainable workforce for the future. These six areas are:

1. **Investment in development** - the development and up-skilling of existing employees.
2. **Labour retention** – exploring wider issues affecting individual employees.
3. **Business succession planning** – current and future organisational capability and needs.

4. **Non-traditional labour pools** – access to such different pools of labour including women, Indigenous people and people with a disability.
5. **Promoting local government as an employer of choice** – strengthening community understanding of the important role of local government and various professions and positions.
6. **Resource sharing** – collaborative partnerships between councils.

These components are integral to the Blue Mountains City Council *Workforce Management Strategy*. The vision of the Blue Mountains City Council Workforce Management Strategy is to maximise workforce productivity by ensuring a **highly safe, skilled and engaged workforce**. Such a holistic approach has a significant flow-on effect and will lead to an increase in employee satisfaction and a reduction in turnover, workers compensation costs, leave liabilities and absenteeism – all of which impact positively on both costs and levels of service.

The Blue Mountains City Council's *Workforce Management Strategy* has five key strategic directions. These strategic directions are known as areas of priority focus and form the basis of the Council's People & Safety Service plan:

Priority Focus 1 – Safe & Healthy

Our people work to the highest safety standards and their wellbeing is paramount.

This priority focus is more than simply meeting our obligations; it is about the development of safety and wellbeing programs to assist the workforce in leading a healthy and productive life.

Priority Focus 2 – Skilled & Responsive

Our people are highly skilled and have the ability to adapt to the ever changing environment.

This priority focus is about ensuring the workforce has the skills and competencies not only to perform their roles today but also to plan and prepare them for the future.

Priority Focus 3 – Committed & Engaged

Our people are highly engaged and committed to the services we deliver and the community we serve.

This priority focus recognises that people will be at their best when they understand what is expected of them and where the organisation is heading. It also acknowledges the critical role leadership plays in delivering success and the need for open and transparent communication mechanisms.

Priority Focus 4 – Systems & Processes

Our people and safety processes are effective and efficient and we meet our compliance obligations.

This priority focus recognises the need to have robust systems and processes to support and enable the workforce to operate at their optimum. It is also important to have clear, documented and transparent internal policies and procedures, which are easily accessible, regularly reviewed and consistently followed.

Priority Focus 5 – Plan & Review

Our approach is regularly reviewed and monitored to ensure ongoing success and business integration.

This priority focus is about ensuring the organisation takes a structured, planned and integrated approach that is aligned to the organisation's vision, objectives and long-term plans and strategies. It also recognises the need for ongoing monitoring to track progress to ensure success.

Within each of these Priority Focus areas a series of key actions has been developed *(Table 5-2).* These are designed to achieve the overall objective of **ensuring a highly safe, skilled and engaged workforce** that delivers "value for money" outcomes for the community.

Table 5-2 BMCC Key actions - Workforce Management Strategy 2014-2024

BLUE MOUNTAINS CITY COUNCIL WORKFORCE MANAGEMENT STRATEGY 2014-2024		
Priority Focus Area	**Key Actions**	**Key Performance Indicators**
Safe & Healthy Our people work to the highest safety standards and their wellbeing is paramount	• Safety Behavioral Program • Safety Awareness & Training • Workforce Wellbeing Program • Work Life Balance Program • Injury Management Process	**Balanced Budget** Current = Meet Target = Meet **Quality of Leadership** Current = 75% Target = 80%
Skilled & Responsive Our people are highly skilled and have the ability to adapt to the ever changing environment	• Succession Planning Model • Skills Gap Model • Employee L & D Process • Performance Management System • Employee Development Plans • Management Development Program • Trainee, Apprentice & Cadet Program	**Community Satisfaction** Current = 78% Target = 80% **Delivery Plan Outcomes** Current = 96% Target = 100%
Committed & Engaged Our people are highly engaged and committed to the services we deliver and the community we serve	• Workforce Engagement Program • Workplace Values & Behaviors • Leadership Development Program • Workforce Participation Strategy • Reward & Recognition Program	**Employee Satisfaction** Current = 76% Target = 80% **Workplace Injuries** Current = 22 Target = NIL
Systems & Processes Our people and safety processes are effective and efficient and we meet our compliance obligations	• Resourcing Process • Workplace Relations Process • Workplace Relations Practices Audit • Safety Management System • Learning Management System • Payroll Services • EEO Management Plan	**Premium Costs** Current = $0.7M Target = $0.5M **Employee Retention** Current = 97% Target = 95%
Plan & Review Our approach is regularly reviewed and monitored to ensure ongoing success and business integration	• Workforce Management Strategy • Employee Survey • People Metrics • Service Standards • Workforce Profiles • Workforce Forecasting System	**Employee Attendance** Current = 97.5% Target = 98% **Compliance Rate** Current = 100% Target = 100%

5.7 Implementation

The General Manager is ultimately accountable for the delivery of the Blue Mountains City Council *Workforce Management Strategy*; however, everyone in the organisation plays an integral part in ensuring its success.

While the People & Systems Group has carriage for facilitating and coordinating the implementation of the associated programs and initiatives across the organisation, the leadership team and line management will take an active role and be responsible for ensuring integration of the *Workforce Strategy* with respective business plans and activities.

Underpinning the workforce's involvement in the overall strategy is an effective communication process, which includes appropriate consultation and feedback mechanisms. The communication process needs to ensure the workforce understands the rationale of the strategy, the respective programs and initiatives and most importantly, how it will affect them.

5.8 Monitor and evaluate

The *Workforce Management Strategy* needs to be monitored and evaluated on a regular basis to ensure it remains relevant, is delivering the outcomes expected and meets the objectives in the Council's Delivery Program and ultimately the Community Strategic Plan-*Sustainable Blue Mountains 2025*.

This process will be undertaken in the context of the organisation's risk management framework that will monitor the changing external and internal environment and regularly review and assess emerging risks. This approach recognises that the development of a strategy is not a "set-and-forget" exercise and will ensure adjustments and changes to the strategy will be undertaken in an effective and timely way.

The key indicator of a successful workforce plan is that Council's overall delivery program, in response to *Sustainable Blue Mountains 2025*, is able to be resourced and met. To monitor progress and evaluate the success and strength of the Blue Mountains City Council *Workforce Management Strategy*, a suite of key metrics has been developed and implemented.

Modern organisational research suggests what separates a high performing organisation from the pack is the creation of an environment in which individuals feel empowered and valued where they have a sense of purpose about how they can make a difference to the community they serve.

Essentially, this means the way people are led is a vital ingredient to success. Therefore, the ultimate measure of success of any workforce strategy is the level of workforce engagement and satisfaction of the workforce. At Blue Mountains City Council this is measured through an annual survey process that all employees are encouraged to participate in. The two key measures from this process are Employee Satisfaction and Quality of Leadership.

As shown in *Figure 5-1*, **Employee Satisfaction** at Blue Mountains City Council has improved 13 per cent over the last five years and is currently at 76%. Since **Quality of Leadership** has been measured there has been an improvement of 7% per cent and is currently 75%.

Figure 5-1 Employee satisfaction at Blue Mountains City Council

There are other key measures that have been developed, which essentially are productivity measures. These are designed to measure effectiveness of the various workforce initiatives and to demonstrate "value for money". The key measures are: Employee Retention and Employee Attendance.

Employee Retention at Blue Mountains City Council has improved by more than 10% in the past five years to a rate of 97.5% in 2013 *(Figure 5-2).* Blue Mountains City Council is now considered one of the top performers in relation to the retention of staff when benchmarked against other NSW Councils, as evidenced in the NSW Council LGSA Survey - Retention Rate Average of 90.3%.

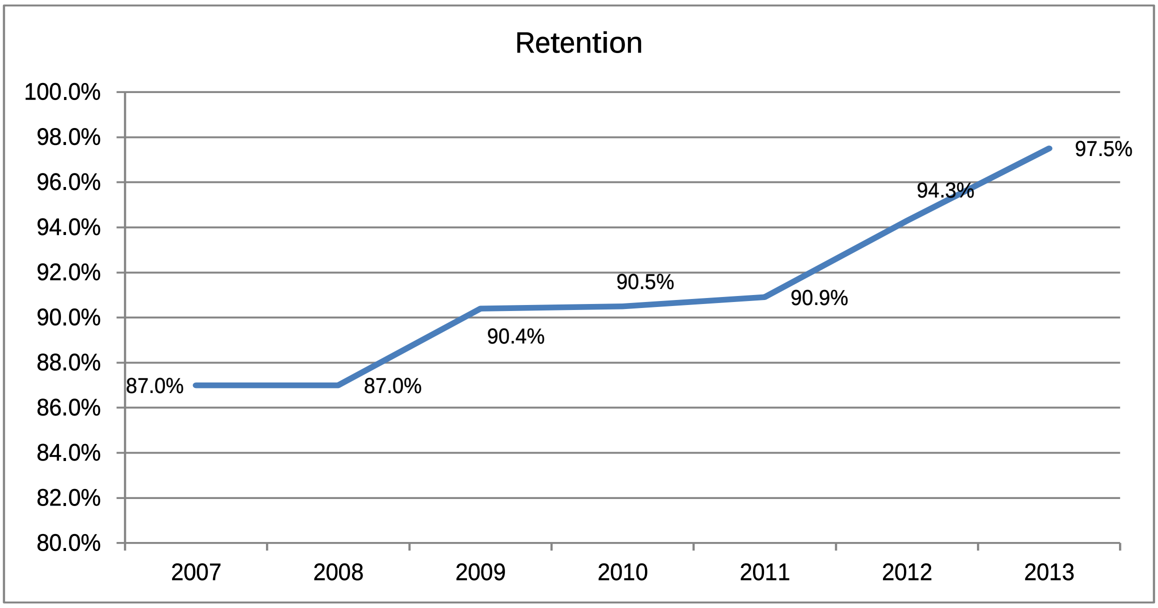

Figure 5-2 Employee retention at Blue Mountains City Council

Employee Attendance at Blue Mountains City Council measures the percentage of contracted hours, excluding scheduled leave (annual and long service), that people are at work. This measure has remained relatively stable, however has improved slightly since being measured and is currently at

96.7% *(Figure 5-3).* This result places Blue Mountains City Council as a top performer in relation to employee attendance when benchmarked against other NSW Councils as evidenced in the NSW Council LGSA Survey – Unplanned Absence Average of 94%.

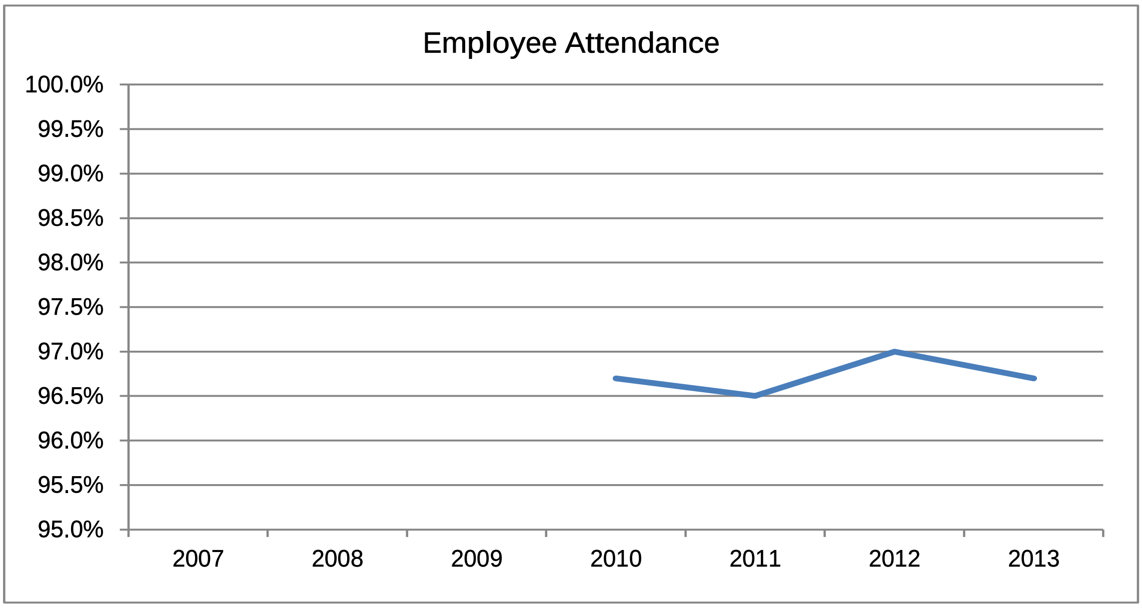

Figure 5-3 Employee attendance at Blue Mountains City Council

The other key people indicators relate to health and safety of the workforce. The two key indicators of this priority focus area are the number of lost time injuries and premium costs. While the number of lost injuries is a measure of the safety of the workforce it is also an indicator of workforce engagement and commitment. The overall premium costs is an indicator of how proactive the organisation and employees are at managing injuries. *Figure 5-4* shows the trend of **Workplace Injuries** over recent years. As the graph demonstrates there has been considerable improvement at Blue Mountains City Council over recent years. That said, when compared to NSW Council benchmarks, the organisation still has some work to do to be considered amongst the best performing organisations.

Figure 5-4 Workplace injuries at Blue Mountains City Council

On the other hand, the **Workers Compensation Premium Costs** have reduced significantly. This result is the outcome of two key drivers:

1. the admission of the organisation to the Retro Paid Loss Scheme
2. the organisational and workforce approach to proactively managing injuries.

This result positions Blue Mountains City Council as one of leading organisations when compared to other NSW Councils, as evidenced in the NSW Council LGSA Survey *(Figure 5-5).*

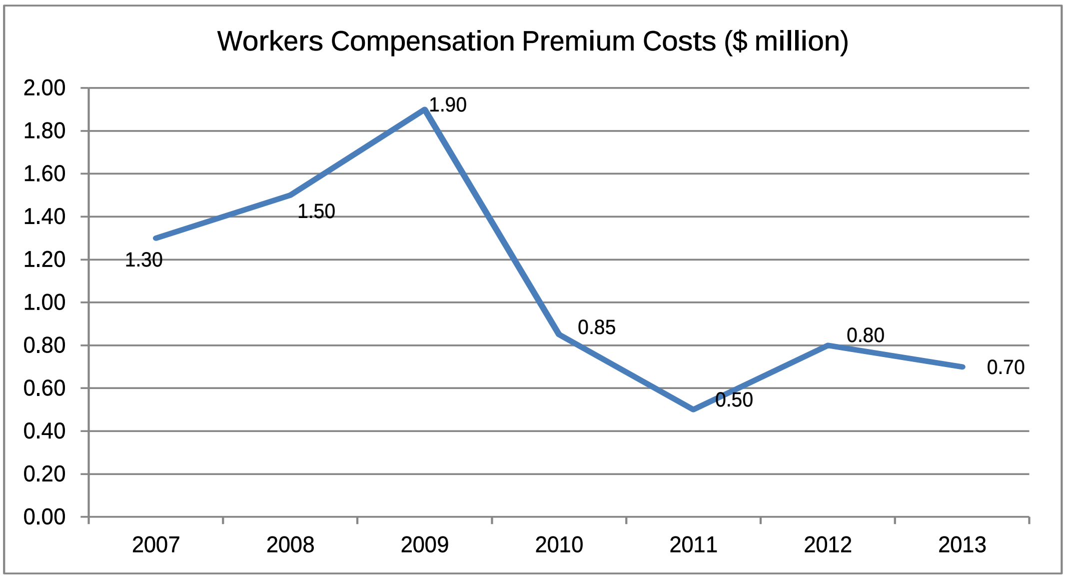

Figure 5-5 Workers compensation premium costs at Blue Mountains City Council

CONTACT COUNCIL

Blue Mountains City Council

The City Within A World Heritage National Park

2 Civic Place
Locked Bag 1005
Katoomba NSW 2780

Tel: (02) 4780 5000
Fax: (02) 4780 5555
Email: council@bmcc.nsw.gov.au

www.bmcc.nsw.gov.au

ABN 52 699 520 223

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