

10. Fit for the Future**FILE:** 14/0900**Author:** Lindy Hyam; Anthony Egan; Mark Ihlein

Executive Summary

The purpose of this report is to endorse the draft Council Improvement Proposal for lodgement by 30 June 2015 as required under the NSW Government's "Fit for the Future" program.

RECOMMENDED that Council endorse the draft Singleton Council Improvement Proposal for lodgement by 30 June 2015.

Background

At Council's ordinary Council meeting held on 15 December 2014 Council considered a report in relation to the NSW Government's "Fit for the Future" (FFF) reform package. As indicated in this report Singleton Council has been identified as "No Change" under the local government "Fit for the Future" program and must submit a Council Improvement Proposal (CIP) by 30 June 2015 which meets specific benchmark indicators within a five year period.

On 10 September 2014, the NSW Premier and Minister for Local Government announced the NSW Government's proposed reform package for all councils throughout NSW. The package titled "Fit for the Future" provides a roadmap/blueprint of the Government's expectations, approach and assistance to ensuring that councils remain strong and sustainable, but more importantly have the scale and capacity to deliver on the expectations of their communities into the future.

The package is largely based on the findings and recommendations identified by the Independent Local Government Review Panel (ILGRP), which over the past three years has carried out extensive research and consultation on the priorities and required reforms identified by the sector.

Based on the work carried out by NSW TCorp, ILGRP and subsequent review by the Independent Pricing and Regulatory Tribunal (IPART), the Office of Local Government (OLG) set certain criteria and benchmarks as a basis for assessing each council's ability to becoming "Fit for the Future".

The Minister for Local Government has recently announced that IPART will undertake the role of the Expert Panel in assessing councils' Fit for the Future proposals. The Premier has appointed an additional tribunal member, Mr John Comrie, to support IPART in its deliberations. Mr Comrie has extensive knowledge of the local government sector and has previously provided advice to the Independent Local Government Review Panel and Local Government NSW on council sustainability issues.

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The FFF reforms require all councils to assess their current position against the Independent Local Government Review Panel's (ILGRP) preferred options and submit a proposal by 30 June 2015.

As Singleton Council has been identified as "No Change" under the ILGRP preferred options, Council is required to lodge a CIP which addresses how Council will meet seven key performance measures which have been established for councils to demonstrate how they are achieving the key criteria or working towards achieving them into the future. A council does not need to meet all performance measures now to be determined FFF but they must develop a CIP to show how they will work towards meeting them.

The seven performance measures are:

Performance measure	Benchmark	IPART expectations for All councils (except rural councils) to achieve benchmark
Operating Performance Ratio	Greater than or equal to break-even average over 3 years	Must meet within 5 years
Own Source Revenue	Greater than 60% average over 3 years	Must meet within 5 years
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	Meet or improve within 5 years
Infrastructure Backlog	Less than 2%	Meet or improve/inform within 5 years
Asset Maintenance	Greater than 100% average over 3 years	Meet or improve/inform within 5 years
Debt Service	Greater than 0% and less than or equal to 20% average over 3 years	Meet or improve/inform within 5 years
Real Operating Expenditure (ROE)	A decrease in ROE per capita over time	Must demonstrate operational savings (net of IPR supported service improvements) over 5 years

All councils will be rated as either 'fit' or 'not fit', or will be 'deemed not fit' if they do not submit a proposal by the 30 June 2015 deadline.

The NSW Government has also announced that councils which are assessed as 'fit' will have access to a range of benefits, including a streamlined rate variation process and a State Government borrowing facility, priority for other government funding and grants and eligibility for additional devolved planning powers.

Each council has been asked to look at its current situation and consider the future needs of its community and the recommendations of the ILGRP. These could include mergers, sharing services, becoming a rural council or a mixture of these. The starting point for all FFF proposals is therefore the ILGRP's final report.

Singleton Council's position

For Singleton Council the recommendation from the ILGRP is "No Change" however a number of options have been considered by Council including enhanced resource sharing with neighbouring Councils in particular with Muswellbrook Shire and Upper Hunter Shire Councils across a range of activities, as previously reported to Council in December 2014.

At the time of the release of the ILGRP final report, Singleton Council was part way through a 3 year focus on reviews of its key strategies, policies and services with a view to identifying future needs. In addition Council has also undertaken extensive work to develop new asset management plans for all asset classes. This was supported by a significant focus on gaining external funding to bring Council's major infrastructure under control in addition to borrowing under the Local Infrastructure Renewal Scheme and a Special Rate Variation to tackle the identified infrastructure backlog for roads and culverts. Without this work being undertaken Council would not meet the current 'fit' status.

A self-assessment tool was issued to Councils in October 2014 by the OLG for completion to determine how council rated against each of the performance measures as at 30 June 2014. Council's completed assessment indicated that Council only currently meets two (2) of the seven (7) ratios identified in the tool. Refer to **Attachment 1**. These seven (7) ratios, and the Action Plan (AP) to meet these ratios within a reasonable timeframe, form an integral part of Council's CIP.

Upon completing the self-assessment and identifying the areas of improvement to be targeted, Council staff have made good progress in preparing the draft CIP for Council's consideration. Refer to **Attachment 2**.

Progress to meeting FFF benchmarks

Council is well down the path of a substantive review of its Resourcing Strategy incorporating the key aspects of assets, workforce and financials. In doing this review, Council Leadership Group has undertaken reviews of Council's services. Council also participates in the NSW local government operational and management effectiveness program conducted by Price Waterhouse Coopers (PwC) Analytics Department and hosted by NSW Local Government Professionals.

Over the past six months Council's new suite of asset management plans (AMPs) have also been updated taking into consideration the additional funding that has been obtained from the recently approved Special Rate Variation of \$700k per annum, Resources to Regions funds totaling \$31.92 million, \$5.71 million from the Hunter Infrastructure Investment Fund and new loan borrowings totaling \$6.2 million which have been subsidised under the Local Government Infrastructure Scheme. The external grant funds have been allocated to specific capital projects works which have been identified in Council's Asset Management Plans. This additional funding has enabled Council to address infrastructure backlog works and additional asset maintenance works. An independent review of Council's Transport Assets Life and residual values has also been undertaken which has identified appropriate depreciation for this asset class.

Council's management has also been undertaking reviews of Council's organisation structure to ensure that Council's services continue to meet community and statutory

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requirements in the most cost effective way. The review work undertaken by Council's Leadership Group will provide a basis for further external efficiency reviews to be undertaken.

As mentioned above Council participated in the NSW Local Government Operational and Management Effectiveness program conducted by PwC. This provided key benchmarking data against Finance, Human Resources, IT, Risk Management and Governance areas identifying areas of good performance, compliance and some areas for improvement. The second report in this project has recently been received and has been reviewed by the Executive Leadership Team. Overall Council is ahead on many of the benchmarks. The second year assessment has been charted against the first assessment to add to the improvement strategies being developed in core governance areas of:

- Workforce;
- Finance;
- Operations;
- Risk management; and
- Corporate leadership.

Draft CIP Key Elements

Council's draft CIP has been prepared with data gathered from the abovementioned items and on the premise that Council has the scale and capacity to continue as a standalone council as determined by the ILGRP.

The draft CIP outlines:

- Confirmation of Council's scale and capacity assessment as being "No Change";
- Outlines a short profile of the LGA and the key challenges and opportunities;
- Performance against FFF benchmarks;
- Water utility performance;
- Key strategies to meet or improve on the benchmarks over the next five years;
- The CIP action plan and how this plan will improve performance; and
- How the plan will be put into action.

Until recently, Council had not increased its general rating levels for eight years beyond the rate peg limit. During this time cost increases exceeded the rate peg, more services were expected of local government and federal and state funding was in a number of cases significantly reduced. Last year an SRV was specifically introduced for addressing Council's roads infrastructure backlog. Despite the significant improvements in many areas of Council operations. As shown in the draft CIP without a significant increase in general rate income Council will not be able meet within 5 years the Operating Performance Ratio, without greatly impacting on existing service levels across the whole organisation, reducing services and staffing.

TCorp in their April 2013 report on the Financial Sustainability of the New South Wales Local Government Sector identified that *"Councils need to achieve at least a breakeven operating position on an on-going basis. The future sustainability of Councils is dependent upon generating sufficient funds to meet the costs of maintaining and renewing assets to deliver services. Councils who have been operating with deficits and are forecasting to*

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continue to do so, are not generating sufficient funds to continue providing services and renewing assets at their current levels. These Councils need to develop options to correct this position. Such options will necessarily involve extensive consultation with their communities, and will need to consider options for revenue increases, reductions in expenditure, and reviews of existing service levels and standards. Surpluses generated by Councils can be used to address their Infrastructure Backlogs."

Singleton Council has always presented balanced cash budgets as was the case for the 2015/16 draft budget. As reported to the May Council meeting, Council and the community are faced with the challenge in 2015/16 to continue to match the appropriate level of community amenities with revenues received. Major budget constraints in developing the 2015/16 draft budget include:

- Financial Assistance Grant (FAG) will not be indexed in 2015/16 resulting in a reduction of \$87,000, assuming a 2.60% increase on the 2014/15 allocation with a total reduction of \$269,000 over 3 years.
- Rate pegging set at 2.4% with the NSW State Award providing a wage increase of 2.7%.
- Interest rates on term deposits have dropped from circa 4% to 3% in the past 12 months meaning Council will earn less on invested cash.
- The cost of some materials and equipment exceed the rate peg.

Additionally, there have been a number of efficiency improvements undertaken in the organisation that have enabled the delivery of a balanced cash budget despite upward pressure of rising costs in real terms.

The revised LTFP has identified reductions in employment expenses resulting from efficiency improvements. It also anticipates that Council will benefit from resource sharing with neighbouring Councils in particular with Muswellbrook Shire and Upper Hunter Shire Councils across a range of activities, including strategic planning, water utilities, risk management and Geographic Information Services. Other shared services with other Hunter councils are also in place including weed management, records storage, legal services, regional procurement, environmental services, kerbside waste recycling service and investigations are underway for a common library management system.

Council's income from Fees and Charges in the current LTFP are lower than prior years with a slow local economy reducing developer application fees and also with a reduction in waste going to land fill. Improvements in the handling of waste and diverting waste from going to land fill has reduced income. Interest on investments are also shown lower than prior years with lower interest rates being available for the investment of funds. The utilisation of funds held by Council in restricted asset accounts towards completing capital projects including the Main Street Revitalisation Project and Dunnolly Road upgrade has reduced the amount of funds available for investing. Council currently has \$76 million in investments which are held as restricted funds and due to legislative requirements are unavailable for utilisation to address council's general fund infrastructure backlog and maintenance requirements.

In Council's LTFP there is no provision for new major assets or projects but simply managing what we have as identified in Council's current Community Strategic Plan. With the identified savings, Council still needs to raise additional ongoing revenue to meet the Operating Performance Ratio within 5 years. The draft CIP provides for a multi-year

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Special Rate Variation (SRV) of 9.75% each year for a period of 4 years from 1 July 2016 as provided by section 508A of the *Local Government Act 1993*. This SRV will replace an expiring SRV which was approved in June 2002 for a period of 15 years to cover the costs associated with loan repayments for infrastructure renewal works which have been completed including a new library. The SRV has been modelled across a number of options all of which are the minimum requirements to meet the state government new FFF benchmarks. The weekly average impact for a residential ratepayer ranges between \$1.15 and \$2.01 based on the current rating mix which may be revisited by Council in the future. The weekly movements proposed are consistent with recently IPART approved SRV's for the 2015/16 financial year. The SRV only applies to the general rate component and will not impact on other charges such as waste services, water and sewerage charges.

The SRV Options considered by Council in the preparation of the draft CIP are shown in the following tables.

Council's SRV Options considered for Fit for the Future

Purpose: To retain expiring SRV together with additional funds to ensure future financial sustainability.

Option	Type of SV	SV sought by council (including the rate peg) - % increase in year						
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
No future SRV		7.30%	2.40%	2.50%	2.50%	2.50%	2.50%	2.50%
One off increase	508(2) Perm	7.30%	2.40%	2.50%	24.00%	2.50%	2.50%	2.50%
SRV over a 3 year period	508A	7.30%	2.40%	2.50%	10.10%	10.10%	10.10%	2.50%
SRV over a 2 year period	508A	7.30%	2.40%	12.70%	12.70%	2.50%	2.50%	2.50%
SRV over a 3 year period	508A	7.30%	2.40%	10.20%	10.20%	10.20%	2.50%	2.50%
SRV over a 4 year period	508A	7.30%	2.40%	9.75%	9.75%	9.75%	9.75%	2.50%

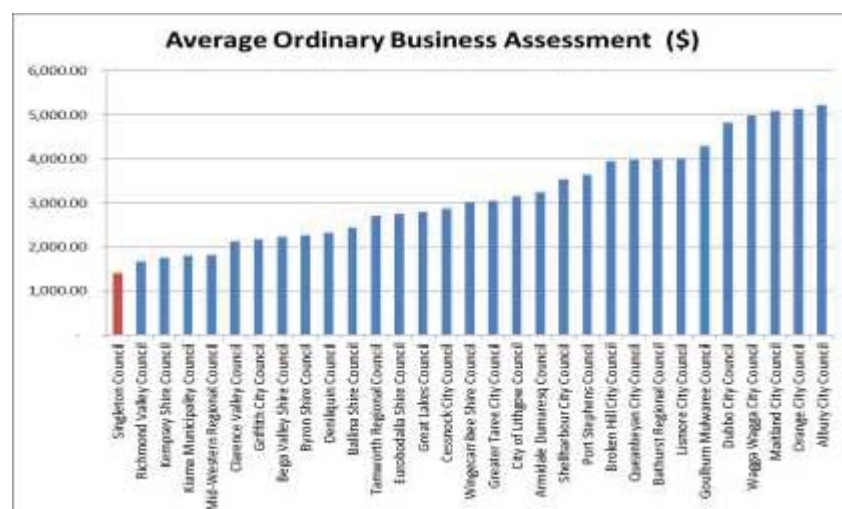
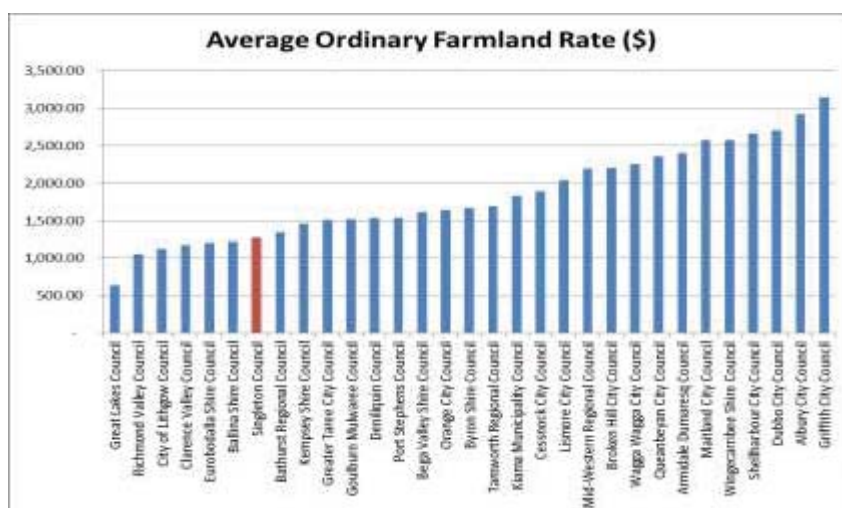
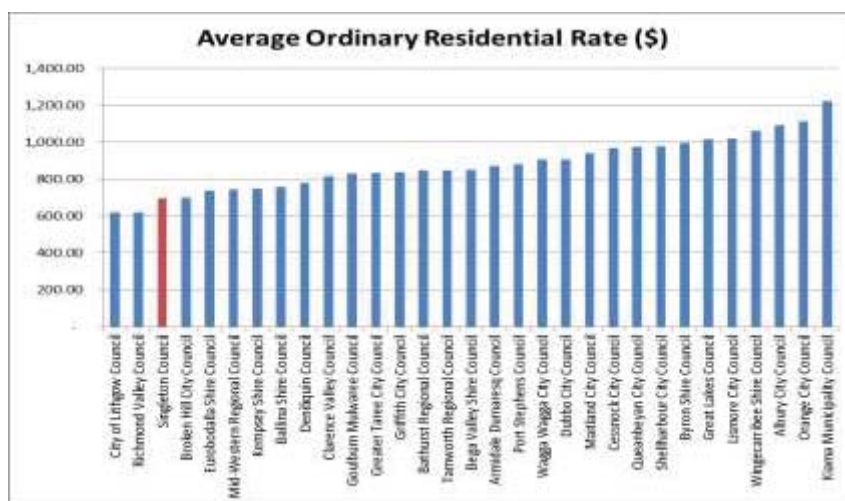
SRV expires 30 June 2017, which will reduce Council's General Rate income by \$501,000 (-3.41%) from 2017/18 financial year.

Council's Anticipated Rate Yield

Option	Type of SV	Anticipated Rate Yield \$'000						
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
No Future SRV		15,211	15,576	15,965	15,851	16,247	16,654	17,070
(Base Case)								
One off increase	508(2) Perm	15,211	15,576	15,965	19,176	19,655	20,147	20,650
Increase above Base Case		-	-	-	3,325	3,408	3,493	3,581
SRV over a 3 year period	508A	15,211	15,576	15,965	17,026	18,746	20,639	21,155
Increase above Base Case		-	-	-	1,175	2,499	3,986	4,085
SRV over a 2 year period	508A	15,211	15,576	17,554	19,219	19,699	20,192	20,697
Increase above Base Case		-	-	1,589	3,368	3,452	3,538	3,627
SRV over a 3 year period	508A	15,211	15,576	17,165	18,364	20,237	20,743	21,261
Increase above Base Case		-	-	1,199	2,512	3,989	4,089	4,191
SRV over a 4 year period	508A	15,211	15,576	17,095	18,212	19,987	21,936	22,484
Increase above Base Case		-	-	1,129	2,361	3,740	5,282	5,415

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The OLG 2012/13 Comparative Data report shows that Singleton Council has the 3rd lowest average ordinary residential rates, the 7th lowest average ordinary farmland rates and the lowest average ordinary business rates for Group 4 councils as shown in the graphs below:



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A key assumption of the CIP is that the water utilities functions of Council will continue under Council's control and ownership. The water & sewer funds assists with the General Fund's sustainability through dividend payments and corporate overheads contributions for services provided to these activities. The 2014/15 budget provides for a combined payment from the Water & Sewer Fund of \$1.2m to the General Fund. This payment is equivalent to 7.89% of Council's general rate income.

Attachment 3 provides a graphical representation of Council's current and proposed LTFP against the seven (7) ratios identified as part of the FFF program.

The completed CIP must be lodged with the OLG by 30 June 2015. This Proposal will then be reviewed by an Independent Panel, approved by the Minister of Local Government by December 2015, and implemented by March 2016, in order for all changes to be completed by September 2016.

Further information about the FFF program, the State Government's detailed responses to the Panel's recommendations and Frequently Asked Questions are available at www.fitforthefuture.nsw.gov.au.

Delivery Program/Operational Plan

In the future the CIP will need to form the foundation of Council's approach to the Integrated Planning and Reporting Framework suite of documents, including annual Operational and Capital Budgets and Community Strategic Plan. A significant review of the Community Strategic Plan will commence following the September 2016 local government elections.

Council Policy/Legislation

The Fit for the Future package demonstrates the NSW Government's firm commitment to bringing about the required reforms so as to ensure we develop a strong, sustainable and responsive local government sector.

It is critical that Council is able to submit its FFF Proposal to the Office of Local Government by 30 June 2015. This submission must indicate that Council has both sufficient strategic and financial scale and capacity and Council will, within a reasonable time, meet the seven (7) ratios identified as part of the FFF program.

Financial Implications

As mentioned in the report to Council in December the implementation of the draft CIP will have a significant impact on Council's LTFP. Should Council endorse the draft CIP, work will commence on updating Council's Resourcing Strategy to reflect the recommended course of action in relation to making a section 508A Special Rate Variation application over a 4 year period from 1 July 2016. Council could apply for a seven year SRV at a lower rate of increase to lessen the community impact but would not meet the FFF criteria in the required timeframe.

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Councillors have been involved in 5 workshops with the Executive Leadership Team in relation to FFF and the development of the draft CIP. A further workshop was undertaken with Councillors where Managers presented their Assessments of their program areas which has also provided input and direction into the draft CIP. Recently, Council's Leadership Group was provided with an overview of Council's FFF strategy for consideration. Prior to the lodgement of the draft CIP to the Office of Local Government a copy of the draft proposal will be placed on Council's website for community information.

Once lodged with the Office of Local Government Council's CIP will be placed on the IPART website until the end of July to enable public submissions to be made.

As the draft proposal requires a SRV commencing 1 July 2016, Council staff will commence with the development of an engagement strategy for the SRV to enable adequate community consultation to be undertaken prior to notification of Council's intention to apply for a SRV. The 'streamlined' required process for the SRV for Fit for the Future councils under these reforms is not yet known.

Environmental Consideration

Not applicable.

Risk Implications

Risk of not raising adequate general rate revenue is that Council is not in a position to maintain its assets adequately, stay on top of its infrastructure need, undoing the improvements of recent years and of not being able to maintain its current service provision into the future. Risk of not raising adequate general fund income is that Council will be declared 'not fit' and will be subject to further determinations of state government for councils in that category.

Options

Council has the following options available:

1. Endorse the draft Council Improvement Proposal for lodgement by 30 June 2015 with the recommended SRV of 9.75% over 4 years commencing 2016/17 .
2. Resolve not to lodge a Council Improvement Proposal by the 30 June 2015.

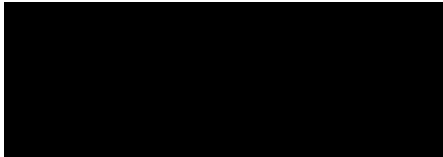
Option 2 is not recommended as failure to lodge a CIP by the 30 June will result in Council being 'deemed not fit' and will leave Council unable to access the benefits that are being offered to those Council's that are identified as being 'fit'.

The draft CIP proposes a 4 year SRV which is the only rating strategy that will enable Council to adequately meet its future financial requirements.

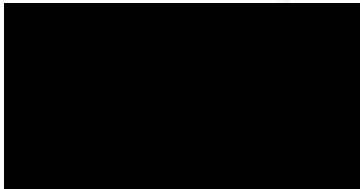
*General Manager's Report (Items Requiring Decision) - GM10/15***Conclusions**

Council will need to submit a CIP by 30 June 2015 outlining its plans to become FFF and meeting the set benchmarks against criteria addressing Council's scale and capacity, sustainability, service effectiveness and efficiency.

The attached draft CIP sets a realistic and achievable pathway to meet and improve on the FFF ratios over the next 5 years, thus ensuring Council's long term financial sustainability.



Lindy Hyam
General Manager



Anthony Egan
Director Corporate Services Group



Mark Ihlein
Director Planning & Sustainable Environment Group

Attachments

- AT-1** Fit for the Future Self Assessment Tool - Summary of Results for Singleton Council
- AT-2** Fit for the Future - Improvement Proposal - Singleton Council - pdf
- AT-3** Fit for the Future - Base Case Vs CIP model financial indicators