



Muswellbrook Shire Council  
**Further Improvement Plan**

Adopted by Council 25 June 2015



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shire council**



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**Muswellbrook Shire Council**

**FURTHER IMPROVEMENT PLAN**

**June 2015**

## TABLE OF CONTENTS

<b>1</b>	<b>EXECUTIVE SUMMARY .....</b>	<b>2</b>
<b>2</b>	<b>STATE GOVERNMENT'S REFORM PROGRAM.....</b>	<b>5</b>
<b>3</b>	<b>SCALE AND CAPACITY .....</b>	<b>6</b>
<b>4</b>	<b>COUNCIL'S CURRENT POSITION .....</b>	<b>13</b>
4.1	About your Local Government Area .....	13
4.2	Services .....	17
4.3	Performance against the Fit for the Future Benchmarks.....	17
4.4	Meeting the Benchmarks.....	19
<b>5</b>	<b>HOW WILL COUNCIL BECOME FIT FOR THE FUTURE? .....</b>	<b>21</b>
5.1	Improvement Plan Methodology.....	21
5.2	Sustainability .....	21
5.3	Infrastructure and Service Management.....	22
5.4	Efficiency.....	22
5.5	Improvement Action Plan .....	24
<b>6</b>	<b>HOW WILL THE PLAN IMPROVE PERFORMANCE? .....</b>	<b>26</b>
6.1	Expected improvement in performance .....	26
<b>7</b>	<b>CONCLUSION.....</b>	<b>31</b>

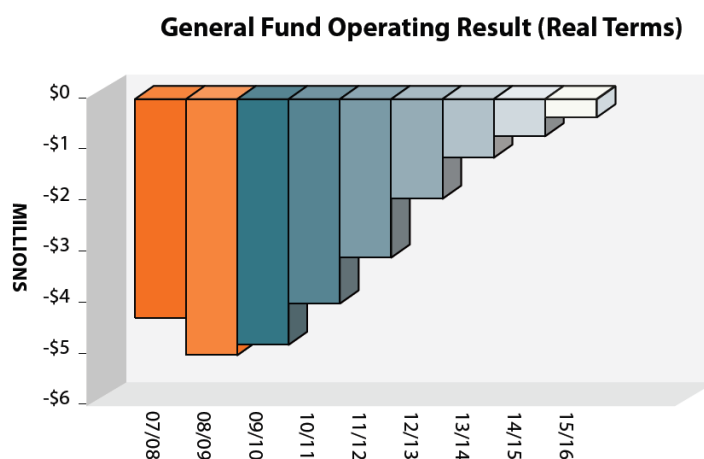
## 1 EXECUTIVE SUMMARY

### 1.1 Council working towards financial improvement since 2009

In 2009, Council embarked upon a fundamental review of its services with a view to substantially improving its financial position and, particularly, the general fund revenue available to fund the renewal of infrastructure, new and upgraded assets, and to build capacity and efficiency within Council's operations.

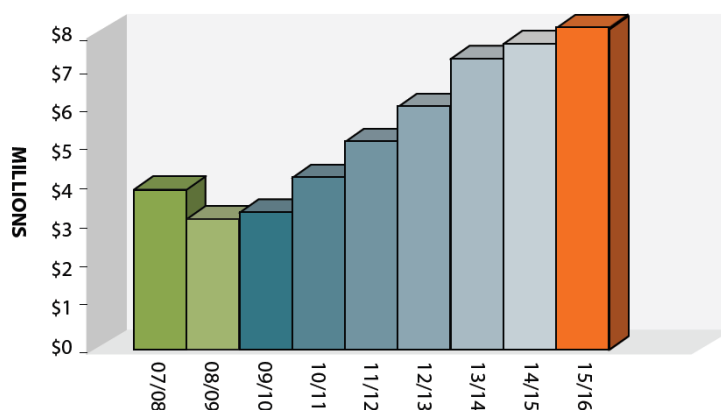
Figure 1 depicts the general fund operating result (as budgeted) since 2007/08 (adjusted so as to keep the methodological assessment of depreciation common over time). Figure 2 depicts general fund revenues available to fund the renewal of infrastructure and to build capacity and efficiency within Council's operations.

**Figure 1**



**Figure 2**

**General Fund Revenues available for Renewals/Replacements of Assets**



## 1.2 Council budgets conservatively

Council's assessment of the appropriate general fund depreciation and required maintenance expenses are intentionally conservative reflecting a broader policy decision to budget conservatively.

It is noted, in that regard, that Council's required road maintenance expense and required depreciation expense, for example, are both substantially higher than the average (per kilometre) allowance arrived at by statistically similar councils (see [Table 1](#)). In part, Muswellbrook's higher assessments are attributable to the higher expected consumption of road assets by the mining industry. The road maintenance expense and depreciation expense underpin, or heavily impact, four of the benchmarks set by the State Government. Whilst Council has made every effort to make a rigorous assessment of these expenses and to have that assessment independently reviewed, it is noted that substantial deviations occur in methodological assessments across councils in New South Wales. Council supports the NSW Auditor General having a greater role in the assessment of these calculations.

**Table 1 – Group 11 Maintenance and Depreciation per KM**

Council	Total Road Length (including local, regional & state) (km)	SS7 Required Roads Maintenance Expenditure/km 2013/14 (\$)	Note 4(d) Actual Roads Depreciation/km 2013/14
Bellingen Shire Council	567	4,615	7,257
Cabonne Council	2,052	983	1,945
Cooma-Monaro Shire Council	1,006	2,328	4,292
Corowa Shire Council	1,358	1,315	1,743
Cowra Shire Council	1,272	1,217	1,794
Greater Hume Shire Council	2,072	1,827	2,590
Gunnedah Shire Council	1,469	2,100	2,647
Inverell Shire Council	2,154	1,918	2,250
Leeton Shire Council	901	2,276	2,954
Moree Plains Shire Council	2,899	2,121	1,814
<b>Muswellbrook Shire Council</b>	<b>628</b>	<b>3,736</b>	<b>5,454</b>
Nambucca Shire Council	704	4,552	6,125
Narrabri Shire Council	2,323	2,896	1,918
Palerang Council	1,301	4,450	3,748
Parkes Shire Council	2,053	1,651	1,978
Tumut Shire Council	635	1,686	3,798
Upper Hunter Shire Council	1,768	2,482	2,531
Yass Valley Council	1,230	5,930	3,149
Young Shire Council	1,172	1,921	1,387
<b>Average</b>		<b>2,632</b>	<b>3,125</b>

It is noted that coastal councils (Bellingen and Nambucca for example) tend to have a higher requirement for road maintenance and depreciation as a result of higher annual rainfalls.

## 1.3 Key Findings

For the reasons set out in Chapter 2, Council has suitable scale and capacity within a regional organisation of councils (Hunter Councils).



Council budgets to meet the operating performance benchmark by 2017/18 – although as Council budgets conservatively, it is probable that Council will meet the operating performance benchmark sooner.

Council plans to increase its level of roads maintenance service for additional crack sealing, line marking, signing, grading, drainage structures and road shoulders by \$199,600 a year (indexed) from 2016/17. Accordingly, the required level of service increases from 2016/17 to reflect the additional level of service. Council's Long Term Financial Plan and future State Government benchmark calculations incorporate that planned level of service increase.

#### **1.4 Further improvements**

Council has a sound financial position. Nonetheless, Council has identified a range of improvements which will further strengthen its position to support the current and future needs of its community. These further improvements are set out in Chapter 5.

## 2 THE STATE GOVERNMENT'S REFORM PROGRAM

Three years ago, local councils from throughout New South Wales gathered for a summit, *Destination 2036*, to plan how local government could meet the challenges of the future. As a result, councils agreed that change was needed. They wanted to be strong and sustainable and make a positive difference in their respective communities. There were various views as to how this could be achieved. In April 2012, the State Government appointed the Independent Local Government Review Panel (ILGRP) to carry out a review of local government. The ILGRP presented its final recommendations to the State Government in late 2013.

The ILGRP concluded that for councils to become strong and sustainable, both the State Government and local government would have to play a part. The State Government indicated its preparedness to change the way it works with councils and support them through meaningful reform. Local councils would also need to consider new ways of working and new structural arrangements. The State Government settled upon the *Fit for the Future* (FFTF) program.

The FFTF program requires councils to actively assess their scale and capacity in achieving long term sustainability. By circular of 10 September 2014, the State Government requested councils submit their proposals to the State Government by 30 June 2015. The State Government recently appointed the Independent Pricing and Regulatory Tribunal (IPART) as an FFTF advisory panel. Its role is to assess the submissions of councils and determine if a council is 'fit for the future'.

IPART set out its opinion of the classification of the FFTF benchmarks in a document entitled *Methodology for Assessment of Council Fit for the Future Proposals*. It also set out its opinion on the appropriate time required to achieve the benchmarks. It has set the following timetable for councils pursuing a 'Council Improvement Proposal':

Scale and Capacity	Achieve scale and efficiency
<b>Operational Sustainability</b>	
Operating Performance	Meet the benchmark by 2019/2020
Own Source Revenue	Meet the benchmark by 2019/2020
Asset Renewal	Meet or improve towards the benchmark by 2019/2020
<b>Capital Sustainability</b>	
Infrastructure Backlog	Meet or improve towards the benchmark by 2019/2020
Asset Maintenance	Meet or improve towards the benchmark by 2019/2020
Debt Service	Meet the benchmark by 2019/2020
<b>Efficiency</b>	
Real Operating Expenditure	Demonstrate operational savings by 2019/2020

### 3 SCALE AND CAPACITY

The ILGRP identified Muswellbrook Shire Council as sustainable in its own right and it was not identified as a potential merger partner. The ILGRP's preference was for Muswellbrook Shire Council to be a standalone council within a Joint Organisation.

In 1979, Muswellbrook Shire Council (at that time known as Denman Shire Council) amalgamated with Muswellbrook Municipal Council to form the presently constituted Muswellbrook Shire Council.

The Shire's population is estimated at 17,045<sup>1</sup>. The Department of Planning and Environment projects population growth to 19,350 by 2031.

#### Capacity

The ILGRP report articulated the Key Elements of Strategic Capacity as follows<sup>2</sup>:

**Figure 3 – Scale and capacity criteria**

Box 8: Key Elements of Strategic Capacity	
<ul style="list-style-type: none"><li>• More robust revenue base and increased discretionary spending</li><li>• Scope to undertake new functions and major projects</li><li>• Ability to employ wider range of skilled staff</li><li>• Knowledge, creativity and innovation</li><li>• Advanced skills in strategic planning and policy development</li><li>• Effective regional collaboration</li><li>• Credibility for more effective advocacy</li><li>• Capable partner for State and federal agencies</li><li>• Resources to cope with complex and unexpected change</li><li>• High quality political and managerial leadership.</li></ul>	

#### Elements of Strategic Capacity

Elements of Strategic Capacity	
More robust revenue base and increased discretionary spending	<p>Council's Long Term Financial Plan makes provision for:</p> <ul style="list-style-type: none"><li>• \$199,600 of additional levels of service in roads maintenance for additional crack sealing, line marking, signing, grading, drainage structures and road shoulders from 2016/17. The required level of maintenance increases from 2016/17 to reflect the additional level of service; and</li><li>• \$50,000 (indexed) a year for additional revenues directed to improving (as yet unplanned) operational levels of service.</li></ul>

<sup>1</sup> Regional Population Growth, Australia, *Australian Bureau of Statistics* (2015).

<sup>2</sup> Box 8, Page 32 of *Revitalising Local Government*



Elements of Strategic Capacity	
Scope to undertake new functions and major projects	Council's Long Term Financial Plan makes provision for \$2,261,930 (indexed) for new and upgraded capital each year.
Ability to employ wider range of skilled staff	<p>Council workforce planning indicates that Council largely recruits from the Newcastle and Hunter regional local government labour market. Council has a slightly higher level of staff turnover than the local government sector more generally – probably as a result of higher mobility of labour within the Newcastle and Hunter regional local government labour market. Council workforce planning also indicates an effective ability to recruit appropriately skilled and experienced persons to vacant positions – again probably as a result of being part of the Newcastle and Hunter regional local government labour market.</p> <p>Council, through its joint ownership and membership of the Local Government Training Institute at Thornton, enjoys an efficient and effective specialist provider to upskill staff officers and councillors.</p> <p>Council is the owner of the Upper Hunter Tertiary Education Centre which is planned to accommodate both Hunter TAFE and the University of Southern Queensland and is working with those organisations to progress the delivery of engineering programs. Council is also the owner and operator of a residential student college.</p> <p>It is also worth noting, that Council has a very low workplace injury history and associated insurance related premiums.</p>

Elements of Strategic Capacity	
Knowledge, creativity and innovation	<p>Council actively participates in technical and innovation working groups as part of its ownership and membership of Hunter Councils. The working groups bring together professional staff officers from councils across the Hunter increasing innovation and the transfer of knowledge across councils. Groups include:</p> <ul style="list-style-type: none"> <li>• Community planning and development;</li> <li>• Environment Directors' Forum;</li> <li>• Human resources and training;</li> <li>• Information Hunter (information technology);</li> <li>• Joint purchasing / procurement;</li> <li>• Records management;</li> <li>• Regional Waste Educators' Group;</li> <li>• Regional Weeds Management Committee; and</li> <li>• Workplace health and safety.</li> </ul> <p>Council has a demonstrable history of innovation and specialisation around best practice in coal mining development in NSW. Council's strategic land-use mapping (including critical industry cluster mapping) formed the basis of State Government policy around land-use planning in the Upper Hunter. Council's work on mine-affected road network planning has led to the development by the State Government of new models to fairly assess and apportion the consumption of road asset life to mining developments. Council's Director of Infrastructure was invited to present a paper on that topic at the IFME World Congress on Municipal Engineering in Rotorua, New Zealand in June this year. Council's innovative work also includes the micro-relief of mining overburden emplacements, disturbance rehabilitation, mine workforce planning and rehabilitated soil structure.</p> <p>Council was a finalist for the 'best solution to an identified workplace safety issue' in the 2014, State Government WorkCover Awards.</p> <p>Council has one the highest recycling rates in rural NSW, reuses 100% of its waste water and is an innovator in energy and carbon footprint reduction in rural NSW.</p>

Elements of Strategic Capacity	
Advanced skills in strategic planning and policy development	<p>In 2010 and 2011 respectively, Council included, for the first time, a dedicated strategic planning officer and a dedicated policy officer within its organisational structure. In addition to statutory documents, Council has prepared the following documents as an illustration of its planning capacity over the last number of years:</p> <ul style="list-style-type: none"> <li>• Muswellbrook Local Environmental Plan (the first rural Council in NSW to complete its LEP in the new standard form);</li> <li>• Development Control Plan;</li> <li>• Land Use Development Strategy;</li> <li>• Muswellbrook Residential and Rural Residential Strategy;</li> <li>• Muswellbrook Shire Children's Services Strategic Plan 2013-2015;</li> <li>• Muswellbrook Shire Council Ageing Strategy 2014-17;</li> <li>• Muswellbrook CBD Strategic Plan;</li> <li>• Muswellbrook Shire Drought Management Plan;</li> <li>• Integrated Water Cycle Management Plan;</li> <li>• Tree Management Plan;</li> <li>• Walk and Cycle Plan;</li> <li>• Strategic Companion Animal Management Plan;</li> <li>• Corporate Sponsorship Plan;</li> <li>• Buildings Strategic Business Review; and</li> <li>• Financial Sustainability Policy.</li> </ul>
Effective regional collaboration	<p>Council is an owner and member of Hunter Councils which is the primary vehicle for regional local government collaboration in the Hunter Region. Hunter Councils is recognised as a leader in shared local government resource management. Its shared resources include:</p> <ul style="list-style-type: none"> <li>• Procurement;</li> <li>• Training;</li> <li>• Record storage;</li> <li>• Innovation and knowledge sharing;</li> <li>• Regional advocacy;</li> <li>• Environmental management (including environmental weed management);</li> <li>• Legal services;</li> <li>• Regional tourism coordination; and</li> <li>• Regional film licencing management.</li> </ul> <p>Additionally, Council is:</p> <ul style="list-style-type: none"> <li>• a member and the host of the Upper Hunter County Council;</li> <li>• a member of the Upper Hunter Local Water Utilities Alliance; and</li> <li>• a member of Local Government NSW.</li> </ul>

Elements of Strategic Capacity	
Credibility for more effective advocacy	<p>Council does not accept any assumption that holds that the size of a council has any relationship to its credibility as an advocate. Council notes, with respect to advocacy, that in the last few years Council has:</p> <ul style="list-style-type: none"> <li>• advocated for, and obtained, a royalties for regions scheme in NSW (and largely in the terms of Muswellbrook Shire Council's submission on the issue);</li> <li>• advocated for, and obtained, additional Department of Planning and Environment compliance officers in the Upper Hunter;</li> <li>• advocated for, and obtained, real-time air quality monitoring in the Upper Hunter together with additional population health studies;</li> <li>• advocated for, and obtained, best practice measures in mining related rehabilitation – particularly in reduction of final landform voids and the micro-relief of overburden emplacements;</li> <li>• advocated for, and obtained, funding for a Muswellbrook bypass;</li> <li>• advocated for, and obtained, substantial upgrades to the Golden Highway; and</li> <li>• advocated for, and obtained, funds for the substantial renewal and upgrade of the Muswellbrook Hospital.</li> </ul> <p>Council also makes effective use of Hunter Councils on issues of Regional significance.</p>

Elements of Strategic Capacity	
<p>Capable partner for the state and federal agencies</p>	<p>Council is presently partnering with:</p> <ul style="list-style-type: none"> <li>• Hunter TAFE and the University of Southern Queensland on the construction of the Upper Hunter Tertiary Education Centre to open in 2016;</li> <li>• The NSW Department of Premier and Cabinet on a pilot project to overcome entrenched disadvantage in the Wollombi Road community housing precinct of Muswellbrook;</li> <li>• The Australian Government, the Tom Farrell Institute, OzGREEN and Conservation Volunteers on the Great Eastern Rangers Initiative. Council is the only local government authority in NSW to be partnering with the Australian Government in that initiative;</li> <li>• The State Government and the Upper Hunter Conservatorium of Music on the construction of a new centre for the Upper Hunter Conservatorium of Music in Muswellbrook to open in 2016;</li> <li>• The NSW Rural Fire Service and Singleton Council on the construction of a new Rural Fire Service Area Headquarters at Bulga; and</li> <li>• The Department of Planning and Environment on a Mine Affected Road Network Plan.</li> </ul> <p>Council has a long history of collaborating with State Government agencies on the delivery of prioritised outcomes in the Muswellbrook local government area. Projects have also included, in recent times, the provision of motorcycles to the Hunter Valley Police Local Area Command, the construction of a residential student college with Hunter TAFE and the construction of a Mining Industry Skills Centre.</p>
<p>Resources to cope with complex and unexpected change</p>	<p>Council includes an operating contingency in its budget of \$200,000 and a capital contingency of \$135,000 (in addition to contingency allowances in individual capital projects). Council will redirect surplus funds arising from savings to organisational strategic capacity building.</p>

Elements of Strategic Capacity	
High quality political and managerial leadership	<p>Council has a long history of stable and effective political and executive leadership:</p> <p><u>Mayors</u></p> <p>The Hon John Jobbling, OAM, MLC, 1974 – 1986;  Cr Ian Wolfgang, 1986 – 1989;  Cr Ian Seymour, OAM, 1989 – 1999;  Cr (Brigadier Ret'd) John Colvin, AM, RFD, ED, 1999 – 2008;  Cr Martin Rush 2008 –</p> <p><u>General Managers</u></p> <p>Lou Fisher, PSM, 1975 – 2001;  Mike Colreavy, 2001 – 2005;  Steve McDonald, 2005 –</p> <p>The present Mayor was also the Chairperson of Hunter Councils from 2010 – 2012.</p>



## 4 COUNCIL'S CURRENT POSITION

### 4.1 About your Local Government Area

#### Key Characteristics

The Muswellbrook Shire Council area is centrally located in the Upper Hunter Valley Region of New South Wales, approximately 130 kilometres north-west of Newcastle. The Shire area is bordered by Upper Hunter Shire Council in the north, Singleton Council in the south and Mid-Western Regional Council in the west.

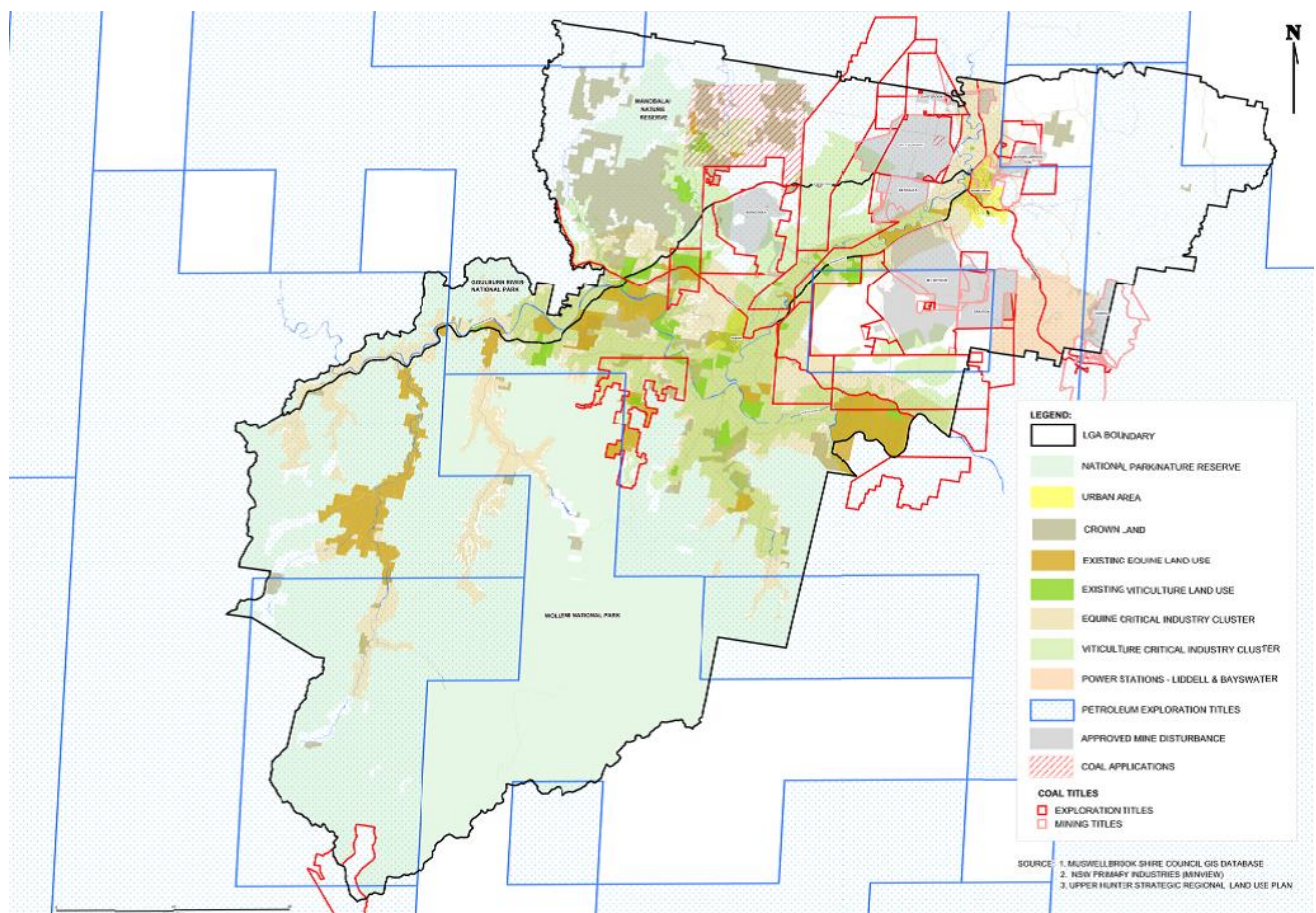
The Shire area is a rich agricultural resource for the State of NSW. Muswellbrook Shire is the centre of the NSW thoroughbred breeding industry with the substantial majority of thoroughbred racehorses (by value) sired in the Shire. Muswellbrook Shire is also home to approximately 15% of the Hunter's wine grape production.

Muswellbrook is the main centre for NSW's power generation capacity. It has also become the major centre of Upper Hunter coal mining, with the largest concentration of open cut mining operations and major expansion of mining approvals over the last few years. It has the second highest rate of coal extraction in NSW.

The Shire area covers a total land area of approximately 3,400 square kilometres, of which 43% is national park.

Equine and viticulture critical industry clusters, areas of pristine native vegetation, active coal mining disturbance areas and power stations are all depicted in [Figure 4](#).

**Figure 4 – Land use map**



## Community Demographics

**Table 2 – Current base information<sup>3</sup>**

	Population (2012)	Land Area (km <sup>2</sup> )	Population Density (persons per km <sup>2</sup> )
<b>Muswellbrook Council</b>	<b>16,694</b>	<b>3,404.99</b>	<b>4.9</b>

The Muswellbrook Local Government Area has enjoyed high population growth in recent years associated with the development of the mining industry. Current trend analysis of census data and that of the NSW Department of Planning and Environment forecasts relatively high population growth, which will provide the scope for increasing Council revenues into the future.

**Table 3 – Population Growth**

2011	2016	2021	2026	2031
16,350	17,100	17,850	18,600	19,350

Council anticipates population growth in the short term, which is expected to be driven by ongoing growth in the coal industry and the continued release of staged residential development in Muswellbrook and Denman. Council has positioned the Shire well with improvements in liveability infrastructure to build improvements in the public amenity of the Muswellbrook Shire, which is anticipated to allow for organic population growth independent of movements in the fortunes of the coal industry.

**Table 4 – Population Growth Rates**

2011-16	2016-21	2021-16	2026-31	2011-31
0.9%	0.9%	0.8%	0.8%	0.8%

Muswellbrook Shire has a young population, with a median age of 33.9 years and a high ratio of children to adults of parenting age. The Shire's population of older residents is smaller than in other parts of the State, and results in a relatively low ratio of the very old to the next youngest cohort<sup>4</sup>. It is noted that age dependency or the ratio of older people (65 and older) to the number of people aged 15-64 years will gradually increase to 0.25 in 2031, which will increase demand for aged services in the area. Council has partnered with Calvary Retirement Communities to develop in 2015 a new state of the art aged care facility for Muswellbrook, which will meet the anticipated growth in demand for residential aged care.

Aboriginal residents make up 5.4% of the Shire's population. Local Aboriginal communities make a significant contribution to the communities of the Muswellbrook local government area, and represent the largest concentration of Indigenous peoples in the Hunter region. The proportion of Indigenous peoples is more than double the NSW average. The Shire marks the intersection of the traditional lands of the Wanaruah and Kamilaroi peoples, and Council has a strong relationship with Aboriginal communities across the Shire.

The Shire will experience an increase in couples with children, lone person and couple only household types from 2011 to 2031. The less dominant household types of single parents and group households will remain steady.

<sup>3</sup> ABS Statistics 2012

<sup>4</sup> NIEIR *New South Wales Local Government Areas: Similarities and Differences* March 2013



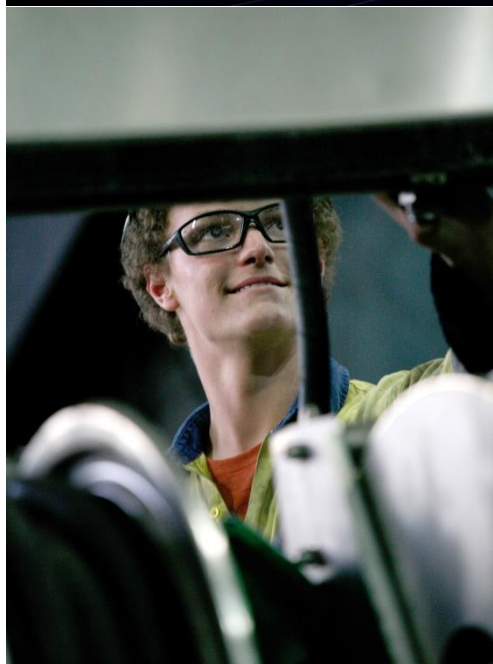
## Community's Social and Economic Needs

The Muswellbrook Shire Council area generates a Gross Regional Product of \$3.327 billion per annum. In 2012, the Shire had 1,047 businesses, mostly in the Agriculture, Forestry and Fishing industry. The majority of fulltime roles in the Shire are employed in (i) Mining, (ii) Retail Trade, and (iii) Agriculture, Forestry and Fishing. Mining supports industries such as engineering, construction, transport, logistics and human resources, which have become well established in Muswellbrook. It has adequate employment land available to meet demand over the short term, which will require careful monitoring over the longer term.

There is moderate cross-border migration between Singleton and Muswellbrook (3.3 percent), which is a balanced flow with very little net movement.

The Shire's residents have an average wage of \$61,487 and are characterised as middle income. There is a high wage and salary component, from which is deducted significant taxes. Property income is significant and there is a reasonable growth in household wealth despite high indebtedness. The unemployment rate is moderate sitting at 4.8%, as is social security take-up. Hours worked per week are lower than other council areas and the Full Time Equivalent jobholding rate is generally low.

The population demonstrates moderate levels of socio-economic disadvantage compared to the State Average when measured against the Socio-Economic Indexes for Areas Index of Relative Socio-economic Disadvantage, ranking 76 among 152 local government areas.

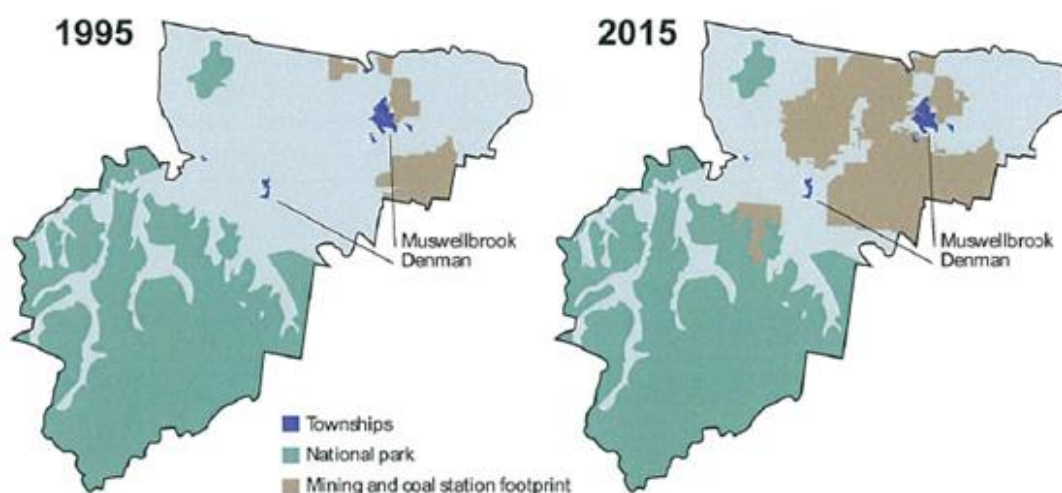


## Community's Sense of Local Identity

Muswellbrook is a vibrant country town of historic buildings and tree-lined streets situated beside the Hunter River. It is an expanding centre due to employment opportunities from nearby coalmines, power stations and a growing wine industry. It is also a service centre for surrounding agricultural activities and horse studs. Residents enjoy strong community ties, a central location with close proximity to the coast, and a rural atmosphere.

The *NSW Department of Planning & Environment State-wide Profile 2014* identifies the Upper Hunter Region as the centre for coal mining in NSW, and notes that towns like Singleton, Muswellbrook and Scone have seen strong employment and population growth in recent years. The Upper Hunter Region continues to face pressure from clearing and particle pollution caused by a range of natural and human activities. A map of the growth of the coal industry between 1995 and 2015 is depicted in [Figure 5](#).

**Figure 5 – Growth of mining footprint in the Muswellbrook LGA**



The Muswellbrook Shire Council area is included in the State Government's Hunter Regional Growth Planning Region. Previous strategic direction for the Hunter Region considered the Lower and Upper Hunter areas separately. The current strategic directions for the Muswellbrook are set out in the *Strategic Regional Land Use Plan for the Upper Hunter 2012*.

This plan was introduced to improve the potential land use conflicts arising from the location of high quality agricultural land, and the mining and coal seam gas industries. The plan includes coal seam gas exclusion zones to make residential areas and equine / viticulture critical industry clusters off limits to new coal seam gas activity. The former State Member for Upper Hunter, the Hon George Souris noted that land use conflict was the major issue in his electorate.

Muswellbrook Shire Council is a member of Hunter Councils, a leader in local government resource sharing. Hunter Councils is made up of 11 councils and strives to reduce the cost of doing business through offering economies and efficiencies in the areas of: environmental management; leadership, development and training; procurement; records storage; legal and consulting services; and film production.

The Hunter Region was selected as one of five successful Joint Organisation pilots to be rolled out across the State, as part of the *Fit for the Future* reforms to strengthen local government and communities. Through Hunter Councils, Muswellbrook Shire Council has also sought to partner with the State Government on regional strategic planning; land use planning and transport corridor strategies; a place based service delivery model; and the review and introduction of a new model of building tourism capacity.

Council has also identified opportunities for enhanced resource sharing with neighbouring councils across a range of activities, including strategic planning, water utilities and Geographic Information Services.

## **4.2 Services**

Council offers a wider range of services than statistically equivalent councils. In addition to traditional infrastructure, recreation, environmental planning, regulatory and associated corporate functions, the Council:

- is a water utility provider;
- is a Regional waste utility provider (including to Upper Hunter Shire Council);
- is a Regional cultural and community service provider (accommodating the Upper Hunter Conservatorium of Music, the Upper Hunter Art Gallery, the Upper Hunter Regional Library Headquarters and Upper Hunter Community Services);
- is a Regional education service provider (the Regional Tertiary Education Centre and the Sam Adams Residential Student College – in addition to more traditional childcare centres and libraries); and
- is the holder of substantial commercial property.

## **4.3 Performance against the Fit for the Future Benchmarks (without improvement)**

It is important to note that from 2009, Council has made substantial adjustments to the valuation of assets, the depreciation expense and required asset maintenance as more sophisticated information becomes available. In 2009/10, for example, a consolidated allowance of \$4,088,878 was made for the depreciation expense whereas in 2015/16 the figure will be \$12,048,100. The large increase in the depreciation expense makes comparisons between financial statements for the purpose of benchmarking problematic. Council has recently undertaken a high fidelity review of its road asset depreciation which has adjusted the figure down by approximately \$1m per annum. Council has also adjusted down its required maintenance allowance following a review of historical experience and industry benchmarks. The allowances are, nonetheless higher than allowances made by statistically equivalent councils. It is probable, therefore, that the 2013/14 financial statements overstate the amount required for asset maintenance and the depreciation expense.

The benchmarks have been modelled forward using Council's current Long Term Financial Plan and the 2013/14 result is presented alongside the forecast 2019/20 results in the tables below. The tables in section 4.3 include results based upon the 2013/14 financial statements. An adjusted column has been added to include the results of the revised methodology Council has developed to calculate the required asset maintenance in forward years.

In order to provide consistent results from 2013/14 through to 2019/20, the additional columns includes adjustments for 2011/12, 2012/13 and 2013/14 to reflect the revised methodology. This avoids a skew in the results which arises from applying the old methodology in the earlier years and the new methodology in the forward years, given this ratio is based on an average of results over three years.

#### 4.3.1 Sustainability Benchmark

Measure/benchmark	2013/2014 Self - assessment	Achieves FFTF benchmark?	Forecast 2019/2020 performance	Forecast 2019/2020 performance (adjusted)	Achieves FFTF benchmark?
Operating Performance Ratio	-0.033%	No	-2.3%	-2.3%	No
Own Source Revenue	58.4%	No	77.9%	77.9%	Yes
Building and Infrastructure Asset Renewal	107.6%	Yes	74.6%	74.6%	No

#### 4.3.2 Infrastructure and Service Management Benchmark

Measure/benchmark	2013/2014 Self – assessment	Achieves FFTF benchmark?	Forecast 2019/2020 performance	Forecast 2019/2020 performance (adjusted)	Achieves FFTF benchmark?
Infrastructure Backlog	1.79%	Yes	2.2%	2.0%	No
Asset Maintenance Ratio	71.0%	No	69.5%	82.0%	No
Debt Service Ratio	2.7%	Yes	3.7%	3.7%	Yes

#### 4.3.3 Efficiency Benchmark

Measure/benchmark	2013/2014 Self - assessment	Achieves FFTF benchmark?	Forecast 2019/2020 performance	Forecast 2019/2020 performance (adjusted)	Achieves FFTF benchmark?
Real Operating Expenditure	\$1,340	No	\$1,590	\$1,590	Yes

Based on our modelling of the 2014/15 Long Term Financial Plan, without any improvement, Muswellbrook Shire Council will not meet three of the benchmarks in 2019/20. It will meet the Infrastructure Renewal Ratio benchmark in 2020/21 when the only benchmarks still requiring attention would be the Asset Maintenance Ratio and Infrastructure Backlog.

IPART's approach to assessing the FFTF criterion requires Rural Councils (including Group 11) to achieve the following:

**Table 1 IPART performance requirements against FFTF benchmarks (Rural Councils)**

Indicator	Benchmark	Required Performance Against Benchmark
Operating Performance	Greater than or equal to break even average over 3 years	Plan to meet within 10 years
Own Source Revenue	Greater than 60% average over 3 years	Plan to improve within 5 years and consideration of FAGs
Building & Infrastructure Asset Renewal	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 within 5 years



<b>Real Operating Expenditure</b>	<b>A decrease in Real Operating Expenditure per capita over time</b>	<b>Must demonstrate operational savings (net of IP&amp;R supported service improvements) over 5 years but may not be practical in short term</b>
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The tables below provide a summary of performance trends against the benchmarks. It is noted that Council's modelling excludes Federal Assistance Grants (FAGs) for the purposes of the Own Source Revenue ratio. IPART determined that Rural Councils (including Group 11) may include FAGs in this measure.

**Table 2 Muswellbrook Shire Council current forecast performance trends against FFTF benchmarks**

<b>Indicator</b>	<b>Modelling Outcome</b>	<b>Performance Against Benchmark</b>
<b>Operating Performance</b>	<b>Improves to benchmark</b>	<b>Meets in 2020/21</b>
<b>Own Source Revenue</b>	<b>Trends upwards to 78%</b>	<b>Meets</b>
<b>Building &amp; Infrastructure Asset Renewal</b>	<b>Rapidly declines then trends upwards</b>	<b>Meets</b>
<b>Infrastructure Backlog</b>	<b>Remains low but increases</b>	<b>Does not meet</b>
<b>Asset Maintenance</b>	<b>Remains steady</b>	<b>Does not meet</b>
<b>Debt Service</b>	<b>Council has little debt and meets the benchmark</b>	<b>Meets</b>
<b>Real Operating Expenditure</b>	<b>Reduces (improves) from \$1,704 to \$1,583</b>	<b>Meets</b>

## 4.4 Meeting the Benchmarks

The above results demonstrate that Council is in a position to satisfy each of the FFTF benchmarks for Rural Councils on its current performance, with the exception of the Asset Maintenance Ratio and Infrastructure Backlog. With the proposed minor improvements contemplated in this Plan, Council will meet each of the benchmarks by 2017/18.

The analysis has focused on what Council would need to do to meet all the benchmarks within five years predicated on a base case scenario contained in the Long Term Financial Plan. The asset based ratios (asset maintenance, asset renewal and infrastructure backlog) have been considered, as has the operating performance ratio.

### 4.4.1 Asset Maintenance

The maintenance ratio is based in part on a revised required maintenance assessment, which differs from that reported in previous financial statements. Required maintenance is assumed to represent the actual amount required to maintain Council's assets. There is no set formula for calculating Council's required maintenance. Some councils use historical data while others look to industry benchmarks such as Yardstick Roads or have other more localised methodologies. Estimates of required maintenance vary considerably between councils and we note Council's required maintenance estimates have tended to be higher than peer group councils.

Council has reviewed its methodology for the calculation of required asset maintenance in preparation of this Plan. That review, based on experiential data and industry benchmarking has identified a number of weaknesses in Council's asset maintenance accounting systems and resulted in new estimates in areas of roads, swimming pools and kerb and guttering maintenance to more accurately reflect required asset maintenance needs. Council has also identified actual expenditure that has previously been reported as an operational expense but should have been reflected as a maintenance expense. As a result of the review of required asset maintenance and additional actual expenditure, the use of the published financial statement data, which relies on the past

methodology is inconsistent with that applied to future years included in the forecasts for Council's Improvement Plan.

To assist IPART in its consideration of Council's Plan, Council has included two estimates for the Asset Maintenance Ratio: the first reflects the results included in Council's published financial statements; and the second is an adjusted result to reflect the application of the revised methodology to remove any inconsistency in the application of the ratio, noting that the benchmarks are calculated on the basis of a three year rolling average.

Council has adjusted its estimation of required asset maintenance in a number of asset classes, which is detailed in Table 3.

**Table 3 Adjusted Required Maintenance (14/15)**

<b>Asset Type</b>	<b>2013/14 Estimate</b>	<b>2014/15 Revised Estimate</b>
<b>Roads</b>	<b>\$2,347,000</b>	<b>\$1,996,000</b>
<b>Swimming Pools</b>	<b>\$522,000</b>	<b>\$150,000</b>
<b>Kerb &amp; Guttering</b>	<b>\$219,000</b>	<b>\$66,000</b>

The adjustments to required maintenance levels are reflected in Council's modelling in this proposal over the forward years and will be incorporated into revised Asset Management Plans, which will be subject to peer review prior to being reported to Council for endorsement.

#### **4.4.2 Asset Renewal**

The asset renewal ratio is based on Council's assessment of annual depreciation on buildings and infrastructure and its actual expenditure on building and infrastructure renewals. If asset depreciation is calculated appropriately then this represents the loss of value of an asset on an annual basis and a renewal ratio of 100% reflects (at an overall level) restoring that lost value.

The LTFP projects no gap between the required annual renewals and projected renewals expenditure.

## **5 HOW WILL COUNCIL BECOME FIT FOR THE FUTURE?**

To ensure Muswellbrook is a 'fit' Council a number of improvements have been identified to address the sustainability, infrastructure and service management and efficiency benchmarks, and to improve Council's strategic capacity.

These opportunities fall into the following categories:

1. Key revenue streams;
2. Cost reduction measures;
3. Organisational improvements;
4. Investments in building strategic capacity;
5. Service efficiency reviews; and
6. Renewable energy savings.

These improvements provide over \$7 million in total towards the cost of Council operations over eight years from 2016 to 2023.

### **5.1 Improvement Plan Methodology**

Council undertook a process of identifying, investigating and testing a range of improvement opportunities.

The process was as follows:

1. Council reviewed its recent improvement opportunities, i.e. business improvement initiatives and service trends.
2. Senior staff identified improvement opportunities using templates, as a 'mini business case', to investigate opportunities in terms of: ease of implementation; net financial benefit (or cost); impacts; legacy issues; risk; stakeholder consultation; and implementation steps.
3. Council collated the opportunities into a list of proposals for consideration by elected Councillors for inclusion as part of Council's Improvement Proposal.
4. Council modelled the identified financial benefits into its LTFP so the impact on the FFTF ratios could be modelled as Council's improved position.

Not all improvements result in direct financial savings. Some improvements invest in further strategic capacity building, or result in non-financial efficiency gains that will result in either improved service levels or customer service. Some improvements impact on one or more of the sustainability, infrastructure management or efficiency benchmarks.

In addition to the opportunities that are able to be modelled into the LTFP, Council has identified several other potential opportunities that require further work on implementation and estimated financial benefits. Once these are fully costed they will be built into future revisions of the LTFP.

### **5.2 Sustainability**

Council will implement the following strategies to build on its good performance in sustainability.

#### **5.2.1 Increase/Maintain Revenue**

Council has modelled new mining category rates revenue into its LTFP to reflect the advanced state of approved mining projects that will come on stream in the short term.

In addition Council has been successful in receiving grants for asset renewal of mine affected roads and other assets. Council's new LTFP makes a conservative provision for continuation of these grants.

It is also noted that Council will undertake service reviews in consultation with the community in relation to the provision of recreation, environmental, education and cultural activities. These service reviews may reveal a community desire for a range of new levels of service and new infrastructure. Until that work is completed, it is not possible to estimate costs associated with new infrastructure. Council would consider as an option and in consultation with community, making application for a Special Rate Variation to fund any new infrastructure identified by the community. However, there are no anticipated needs at present for any increase in rates revenues above the rate peg.

### **5.3 Infrastructure and Service Management**

Council will implement the following strategies to build on its already strong performance in infrastructure and service management.

#### **5.3.1 Asset Management Improvements**

Asset expenditure has been remodelled and any operating surplus or improvement savings have been applied firstly to improve renewals and address infrastructure backlog as quickly as possible. Once the backlog is addressed, renewals are reduced and maintenance increased until the maintenance ratio reaches 100%. Thereafter, investment in maintenance is calculated at a level to maintain a ratio of 100%. This initiative impacts directly on the Asset Maintenance Ratio enabling it to reach benchmark earlier than initially projected. It is also noted that Council indexes asset depreciation annually.

It is also noted that Council has reviewed its assumptions in relation to the required maintenance across all asset types and made adjustments to more accurately reflect the levels of required maintenance in roads, swimming pools and kerb and guttering. These changes will be subject to peer review and when confirmed incorporated in to revised Asset Maintenance Plans. In addition Council will undertake a review of actual maintenance costs.

#### **5.3.2 Asset Rationalisation**

With a particular focus on rationalising underused land and building assets, duplicated assets and those at the end of their useful lives, Council has identified areas where assets can be rationalised to realise the capital value of underused and underperforming assets. Council proposes that the proceeds from the sale of land and buildings be held for future use, but has allowed an interest benefit of \$16,000 over four financial years.

### **5.4 Efficiency**

Council will implement the following strategies to build on its efficiency performance.

#### **5.4.1 Review Delivery Model for Certain Council Functions and Services**

Council has identified an opportunity to deliver existing functions and services more efficiently through a two-staged Organisational Review. This process had commenced independently of FFTF in response to Council's need to ensure Muswellbrook is a leading, contemporary local government that is well structured to deliver community expectations now and into the future. This process will examine organisational performance, processes, systems and structures.

Council has identified additional opportunities for increased efficiency through enhancements to strategic capacity. The first initiative will focus on improving systems and processes, and training for staff or recruitment of key staff to meet skills gaps identified within the organisation.

These opportunities will improve Council's scale and capacity to govern more effectively and to continue to provide a strong voice for its community.

#### **5.4.2 Undertake Service Reviews**

In the 2016/17 Financial Year, Council will commence a two-staged review of the following services:

- Tourism and Economic Development
- Pools
- Libraries
- Art Gallery
- Planning and Building
- Community Infrastructure

Council estimates a cost saving will be generated over four financial years.

#### **5.4.3 Renewable Energy**

Council has identified opportunities for increased efficiency through an Energy Renewal Program. This program has been recently introduced by Council and whilst savings are still being modelled, a conservative estimate of an \$80,000 saving over four years has been included in our modelling.

## 5.5 Improvement Action Plan

Opportunity	Action	Timeframe				Total Saving Target Over 4 Years	Service Impact			Increases Strategic Capacity
		2015/16	2016/17	2017/18	2018/19		Service Level	Efficiency	Service Delivery	
SUSTAINABILITY										
1. Increase or maintain key revenue streams	<ul style="list-style-type: none"><li>Continue to work with new approved mining projects to ensure projects come on stream as proposed</li><li>Continue to apply for grants for renewal of mine affected assets and other infrastructure</li></ul>	✓	✓	✓	✓	\$3.6m	Y+	N	Y+	N
INFRASTRUCTURE AND SERVICE MANAGEMENT										
2. Review asset management data	<ul style="list-style-type: none"><li>Review asset management plans and required maintenance calculations</li></ul>	✓	✓	✓	✓	TBC	N	Y+	N	Y
3. Rationalisation of underutilised assets	<ul style="list-style-type: none"><li>Review and rationalise assets over two years</li><li>Proceeds from sale invested and interest used in General Fund</li></ul>	✓	✓	✓	✓	\$16,000	N	Y+	N	N
EFFICIENCY										
4. Service Review Program <ul style="list-style-type: none"><li>Recreational, Cultural Tourism and Economic Development activities</li><li>Planning and Building activities</li><li>Community Infrastructure</li></ul>	<ul style="list-style-type: none"><li>Review specific services, including service levels, service expectations, trends, delivery models and performance</li><li>Refine services</li></ul>		✓	✓	✓	TBC	Y	Y+	Y-	Y



Opportunity	Action	Timeframe				Total Saving Target Over 4 Years	Service Impact			Increases Strategic Capacity
		2015/16	2016/17	2017/18	2018/19		Service Level	Efficiency	Service Delivery	
5. Strategic Capacity Improvements	<ul style="list-style-type: none"> <li>Undertaken in conjunction with the Organisational Review</li> <li>Systems and process improvement</li> <li>Training and recruitment of key skill gaps</li> </ul>	✓	✓	✓	✓	TBC	N	Y+	Y+	Y
6. Renewable Energy Program	<ul style="list-style-type: none"> <li>Program to be developed</li> </ul>	✓	✓	✓	✓	\$80,000	N	Y+	Y-	Y

**Note:**

Y = Yes, there will be some impact though context not evaluated    Y+ = Positive impact    Y- = Negative impact    N = No impact

## 6 HOW WILL THE PLAN IMPROVE PERFORMANCE?

The above improvement opportunities have highlighted savings that can be achieved across Muswellbrook Shire Council's operations. Some of these will be implemented immediately, while others will take time, or more work and effort to realise.

As noted the asset gap discussed earlier in this report has been remodelled and any operating surplus or improvement savings have been applied firstly to improve renewals and address the infrastructure backlog as quickly as possible. Thereafter, investment in maintenance is calculated at a level to maintain a ratio of 100%.

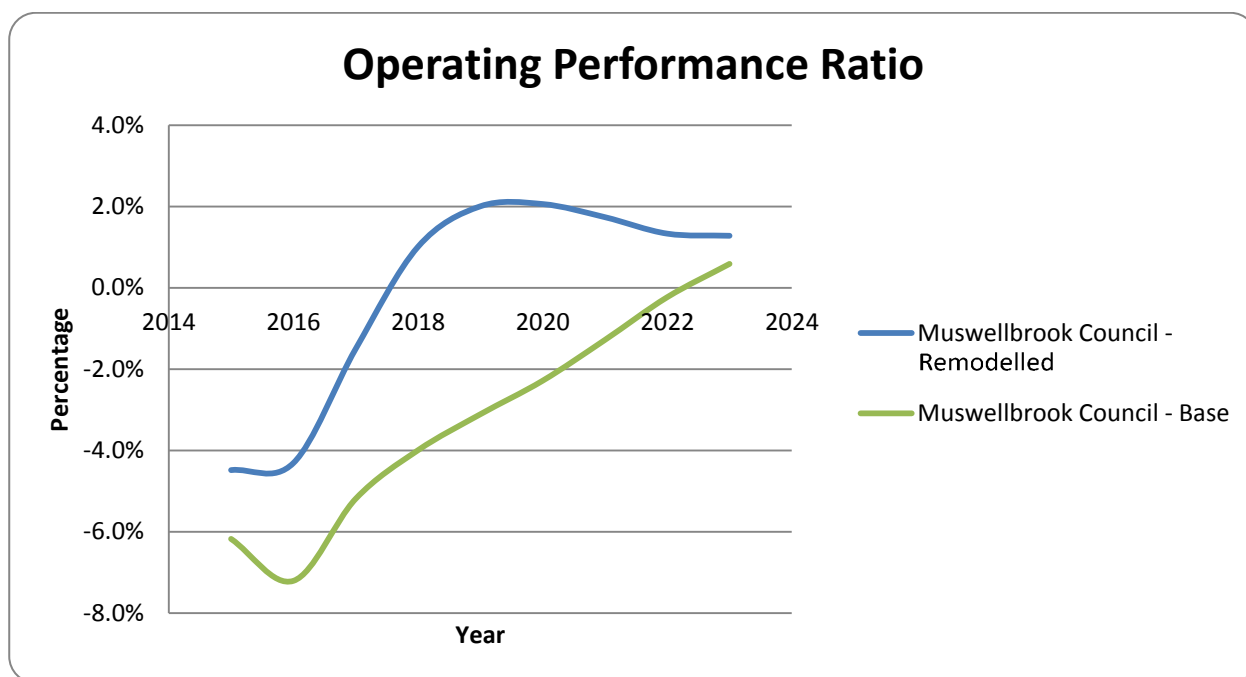
Modelling these cost savings and efficiencies has provided an improvement on the FFTF indicators. The following table shows the effect of the improvement opportunities identified above.

### 6.1 Expected improvement in performance

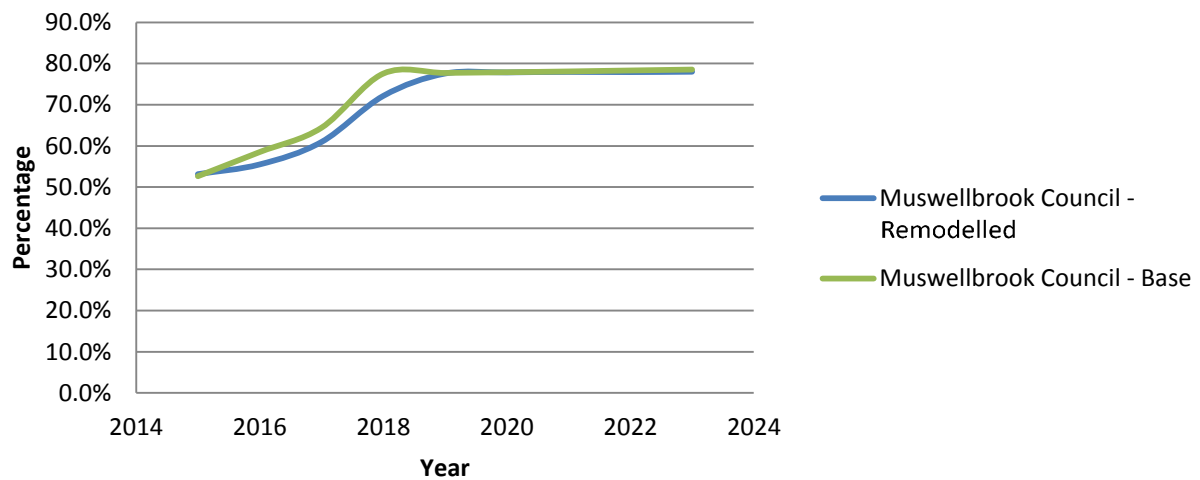
Measure / benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark
<b>Operating Performance</b> (Greater than or equal to breakeven average over three years)	-4.5%	-4.3%	-1.5%	1.0%	2.0%	2.1%	Yes
<b>Own Source Revenue Ratio</b> (Greater than 60% average over three years)	53.1%	55.5%	60.9%	72.1%	77.6%	77.8%	Yes
<b>Building and Infrastructure Asset Renewal Ratio</b> (Greater than 100% average over three years)	170.9%	169.5%	152.8%	101.7%	103.3%	106.8%	Yes
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over three years)	81.8%	84.8%	98.6%%	101.7%	103.5%	104.2%	Yes
<b>Asset Maintenance Ratio (Adjusted)</b> (Greater than 100% average over three years)	83.2%	89.0%	98.6%	101.7%	103.5%	104.2%	Yes

<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over three years)	4.8%	4.7%	4.3%	4.0%	3.8%	3.6%	Yes
<b>Real Operating Expenditure per capita</b> (A decrease in Real Operating Expenditure per capita over time)	\$1,704	\$1,639	\$1,637	\$1,631	\$1,635	\$1,628	Yes

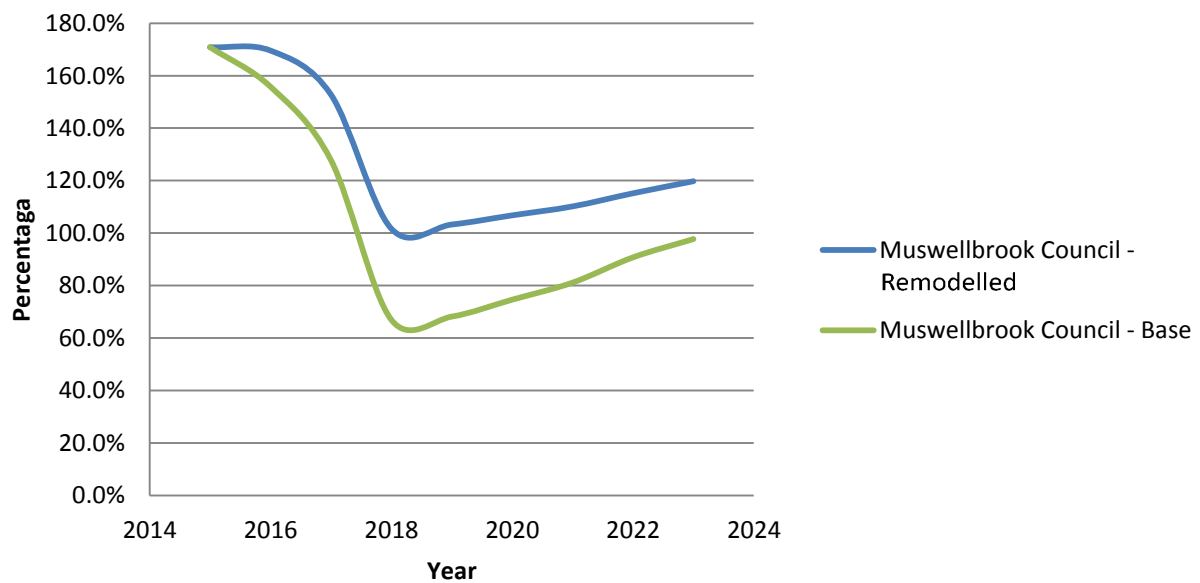
Council meets all FFTF benchmarks by 2019/20 and thereafter continues to maintain or improve performance against the benchmarks criteria. The impacts of the improvements over the entire modelling period are shown in the charts below.



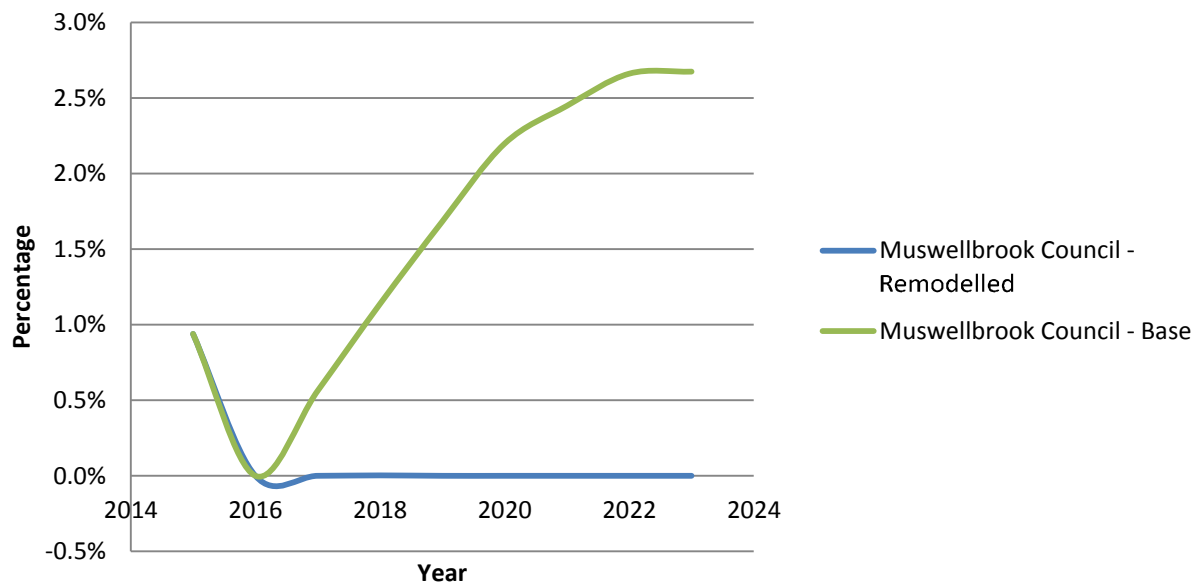
## Own source revenue Ratio



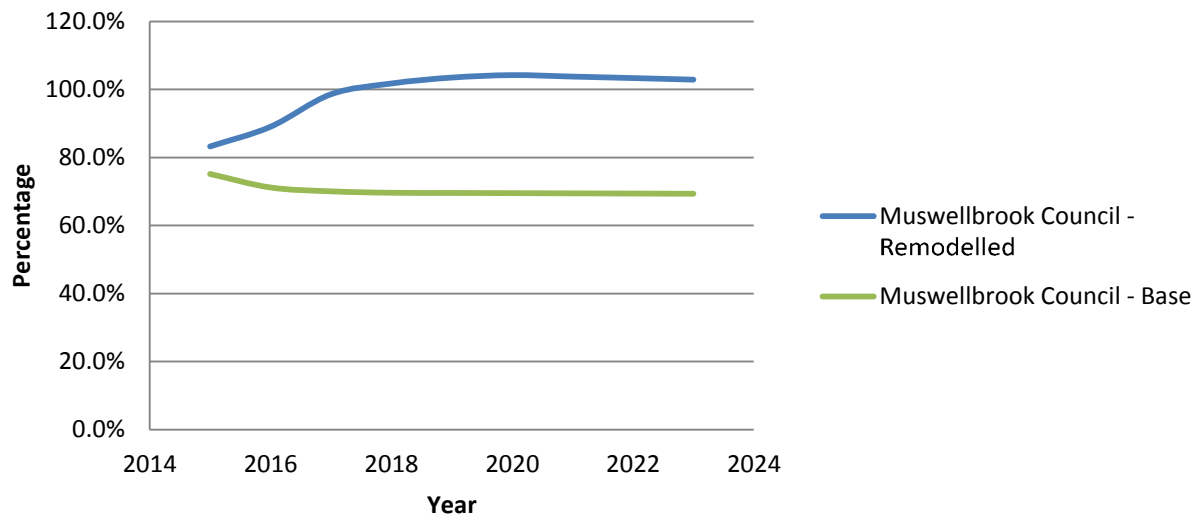
## Renewals Ratio



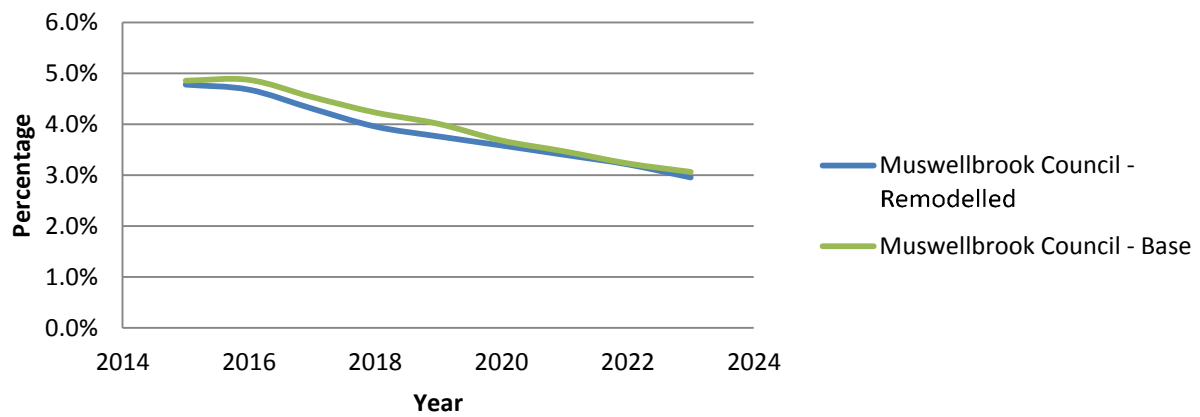
### Backlog Ratio



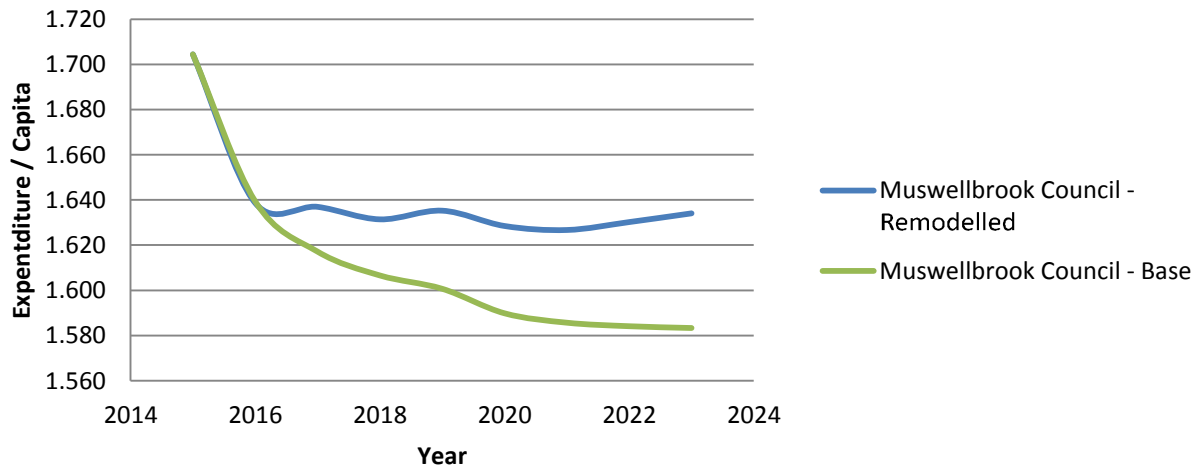
### Maintenance Ratio



## Debt Services Ratio



## Operating Expenditure per Capita





## 7 CONCLUSION

The ILGRP recommendation for Muswellbrook Shire Council is that it remains as a stand-alone council with no structural or boundary changes. Given that recommendation, the ILGRP is likely to have considered that Muswellbrook demonstrated most, if not all the elements of scale and capacity. Council has the demonstrated scale and capacity to continue as a stand-alone council.

Muswellbrook Shire Council's initial Self-Assessment indicated it did not meet four of the *Fit for the Future* criteria established by the Office of Local Government: the Operating Performance Ratio; Own Source Revenue Ratio; Asset Maintenance Ratio; and Real Operating Expenditure Over Time benchmark. It is noted that Council's performance against the Operating Performance Ratio and Own Source Revenue Ratio was only just short of meeting the required performance for 2013/14.

Council has been undertaking a continual process of improvement since 2009, which has provided Council with the solid foundation to continue to operate as a stand-alone council, to fund the renewal of infrastructure and to build capacity and efficiency within Council's operations. The continuation of this program of improvement has been enhanced by a number of additional strategies outlined in this plan, which show that Council is in a position to meet all of the FFTF benchmarks by 2017/18.

Fit for the Future Criteria	Meets Now	Meets in 2017/18
Scale and Capacity as per the ILGRP Recommendation	Yes	Yes
Operating Performance Ratio	No	Yes
Own Source Revenue Ratio	No	Yes
Buildings and Infrastructure Asset Renewals Ratio	Yes	Yes
Infrastructure Backlog Ratio	Yes	Yes
Asset Maintenance Ratio	No	Yes
Debt Service Ratio	Yes	Yes
Real Operating Expenditure Over Time	No	Yes

Council will develop an implementation plan in partnership with consultants Morrison Low, to ensure that the identified strategies are achieved over time and the Council continues to operate on a sustainable footing into the future. Council has resolved that it be provided with quarterly reports to ensure continual monitoring of the implementation of measures to improve organisational performance.