Council Improvement Proposal

Attachment 2: Performance Against Benchmarks

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2.3 Performance against Benchmarks

Summary of Council's position:

Sustainability				
Benchmark	**2014 Performance** (3 Year Average)	**Meets Benchmark?**	**2017 Forecast** (3 Year Average)	**Meets Benchmark?**
Operating performance Ratio	-0.010	✗	0.09	✓
Own Source Revenue Ratio	60.30	✓	69.00	✓
Building and Infrastructure Asset Renewal	107.7	✓	113.00	✓
Infrastructure and Service Management				
Benchmark	**2014 Performance** (3 Year Average)	**Meets Benchmark?**	**2017 Forecast** (3 Year Average)	**Meets Benchmark?**
Infrastructure Backlog Ratio	13.65	✗	2.00	✓
Asset Maintenance Ration	115.0	✓	156.00	✓
Debt Service Ratio	3.82	✓	5.00	✓
Efficiency				
Benchmark	**2014 Performance**	**Meets Benchmark?**	**2017 Forecast**	**Meets Benchmark?**
Real Operating Expenditure per Capita	1.47	✗	1.31	✓

Council has now adopted a detailed review of its Resourcing Strategy. This has involved a detailed review of Council's:

- Financial Strategy
- Asset Management Strategy; and
- Workforce Strategy.

As part of the process, Council's suite of asset management plans (AMPs) have also been fully updated utilising new asset management software and data. This has enabled a full assessment of progress under the adopted long term financial plan and highlighted areas of positive movement and some minor gaps. The updated data has allowed an informed review and update of the Council's long term financial plan.

Council has also completed a full service review utilising templates applied in other councils and best practice methodology, and participated in a number of audit, benchmarking and comparison processes. Council also engaged consultants to undertake external reviews in a number of priority areas.

This process has included a full internal review across all areas utilising a framework developed and implemented by Port Stephens Council. Staff worked with Councillors to develop a template which was workshopped with staff along with independent staff facilitation. The reviews considered:

A review of the current position of each service reflecting back to Council's adopted level of service – source of funding, expenditure, current level of service, current staffing, and why the service is delivered;

- Resources required to deliver the service
- Assessment of statutory reporting
- Emerging trends relating to the service area
- Efficiency opportunities internal, funding procedures; impacts on service, budget, staffing resources
- Alternative service delivery options
- Options for considered service – continue at same level of service; change level of service; outsource options; cease activity
- Implications of service recommendation options – financial, service, staffing, assets.

Work on this process was completed in March 2015 and an initial assessment has been undertaken of key service improvement areas which are being included in the draft Operational Plan for action in 2015-16. The full data set will be used to inform management options for future service profiles and options under FFTF over the coming 12 months.

It was also identified there were several service areas requiring independent, external review. Staff assessed the cost of some of the consultant organisations listed on the OLG panel to assist councils determine their FFTF status against the adopted benchmarks. As Council had no identified budget for this activity only a number of core service areas were externally reviewed where budget capacity allowed. These included the library and procurement areas of Council with a review of economic development and business growth activities commenced.

Also in the period Council participated in the *NSW Local Government Operational and Management Effectiveness* program conducted by PwC. This provided key benchmarking data against corporate and governance areas, identifying areas of compliance and some areas for improvement. The second report in this project is due in April and will be 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.

Council also accelerated its Internal Audit Action Plan and is linking the findings from the audit process into the development of its Council Improvement Plan and Operational Plan.

All these aspects have contributed to Council being in a position to finalise a CIP and commence preparing its timeframe for a full Community Strategic Plan review.

The above processes also provide input to future discussions with other local government bodies about shared service opportunities and reviewed models of service profiles.

In order to be determined Fit for the Future Council needs to demonstrate its current position against a number of benchmarks. To do this information from Council's 2013-14 (General Fund) financial results are entered into an online Self Assessment Tool provided by the Office of Local Government. The forecast performance is based on the Council's forecast for the 2016-17 (General Fund) financial results taken from Council's current financial plans and assumptions adopted as part of the integrated planning and reporting framework. The online template automatically calculates whether Council meets the benchmark.

Council is required to attach its adopted plans and long term financial plan to demonstrate the inputs into the template.

As this process is all online Council has prepared this report to demonstrate Council's performance and plan for the community to consider.

In preparing its first community strategic plan and long term financial plan Council utilised a number of consultants and undertook community surveys. Council has monitored its performance against its adopted plans and has seen improvement in its asset management gap brought about through its redirection of funds and the direction of a three year special variation application applied progressively to transport, recreation and buildings infrastructure.

The following definitions outline how the result is calculated against each of the benchmarks.

Sustainability

Sustainability				
Benchmark	**2014 Performance** (3 Year Average)	**Meets Benchmark?**	**2017 Forecast** (3 Year Average)	**Meets Benchmark?**
Operating performance Ratio	-0.010	X	0.09	✔
Own Source Revenue Ratio	60.30	✔	69.00	✔
Building and Infrastructure Asset Renewal	107.7	✔	113.00	✔

Explanation:

The ratios have been developed to demonstrate Council's financial sustainability and indicates Council's capacity to meet ongoing operating expenditure requirements. Councils with higher own source revenue have greater ability to control their own operating performance and financial sustainability. This area also demonstrates whether assets are deteriorating faster than they are being renewed and indicates if Council's infrastructure backlog is likely to increase.

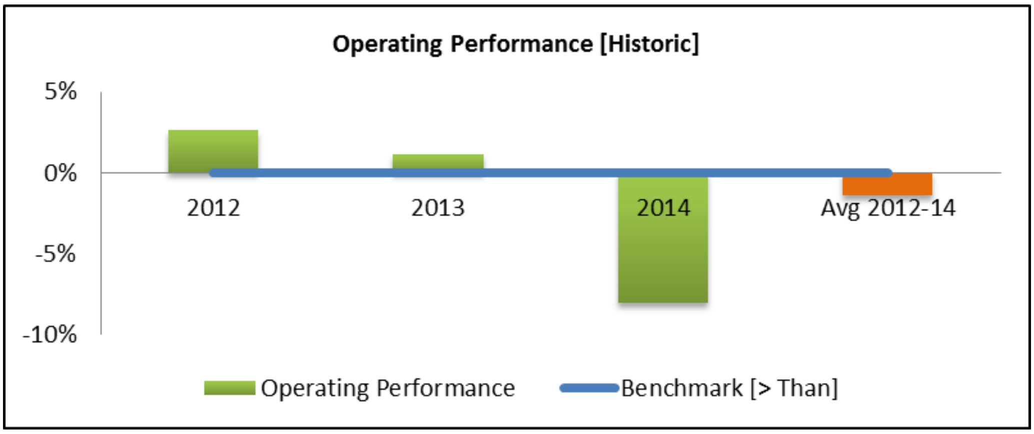
Council comment against performance:

1. Council does not currently meet the Operating Performance Ratio. Actions to address this are outlined in our action plan for the future
2. Council currently meets the Own Source Ratio: No significant changes required.
3. Council meets the Building and Infrastructure Renewal Ratio: No significant changes required.

Operating Performance Ratio

2013-2014 Performance

The Operating Performance Ratio rolling three year average of -0.010 for 2013-14 does not meet the benchmark of greater than or equal to break-even. Council's performance as calculated by the OLG Self Assessment Tool is shown below:



Explanation

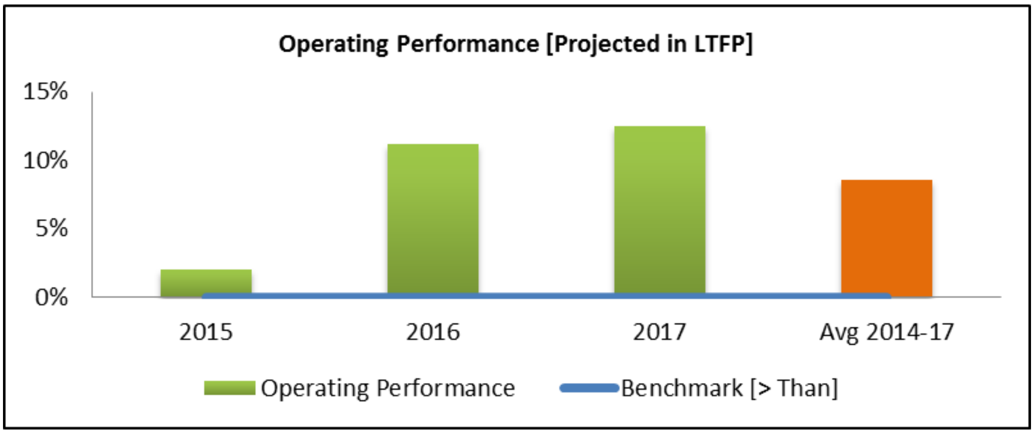
As outlined above, the 2014 financial year deficit brought the three year average below the benchmark. The reason for the deficit in 2014 was due to the cessation of the advance Financial Assistance Grant payment program. In 2011-2012 the Federal Government paid an advance payment of FAG to Australian Councils (5 payments). This resulted in an inflated operating revenue in that year. Each year thereafter 4 payments were made, always one quarter in advance. In 2014, the Federal Government decided to cease this program and return the FAG to their usual payment cycle, resulting in only 3 payments in the 2014 year. Council had always kept the advance FAG payment in reserve to account for this eventuality so this did not cause a cash problem and the original plan of works was completed. But on the Financial Statements the expenditure was recorded but no income, hence an operating deficit. If the Government had retained their payment cycle then BVSC would have shown a positive result in this ratio.

That being said, BVSC is always looking for ways to strengthen its financial position and will continue to monitor the performance of its financial position to ensure a positive result into the future.

Operating Performance Ratio

2016-2017 Forecast Performance

The Operating Performance Ratio rolling three year average of 0.09 for 2016-17 does meet the benchmark of greater than or equal to break-even. The graph below shows the three years making up the forecast average result for 2016-17.



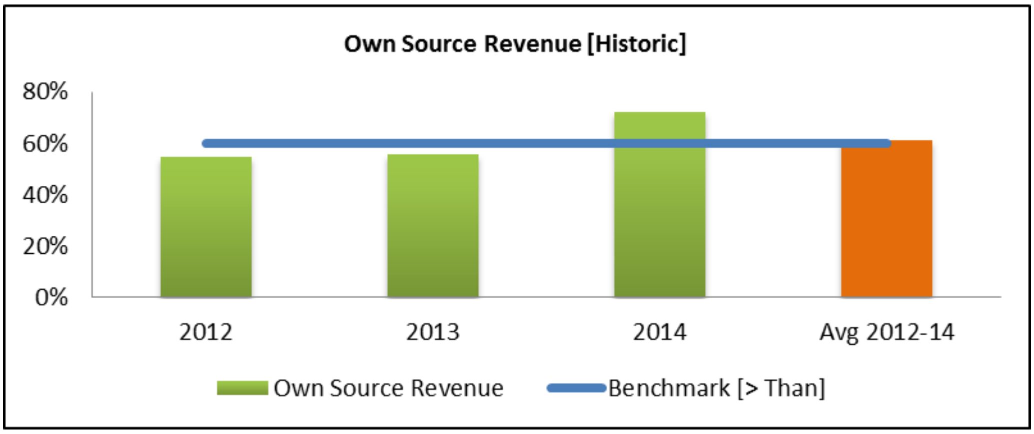
Explanation

Council forecasts through its adopted Long Term Financial Plan sustainable growth in its operating results as it looks to shift expenditure from maintenance to renewals. BVSC anticipates that it can maintain a positive operating performance ratio well into the future.

Own Source Revenue Ratio

2013-2014 Performance

The Own Source Revenue Ratio rolling three year average of 60.30 for 2013-14 does meet the benchmark of greater than 60%. Council's performance as calculated by the OLG Self Assessment Tool is shown below:



Explanation

In each of the 5 years preceding 2014, Council has been in receipt of emergency grant funds due to natural disasters occurring in our Shire. These funds serve to reduce this ratio as the income derived from the specific purpose grants skews the result of this ratio by bringing the value lower. In total Council has received over $25m in emergency grants from the State Government over the past 5 years.

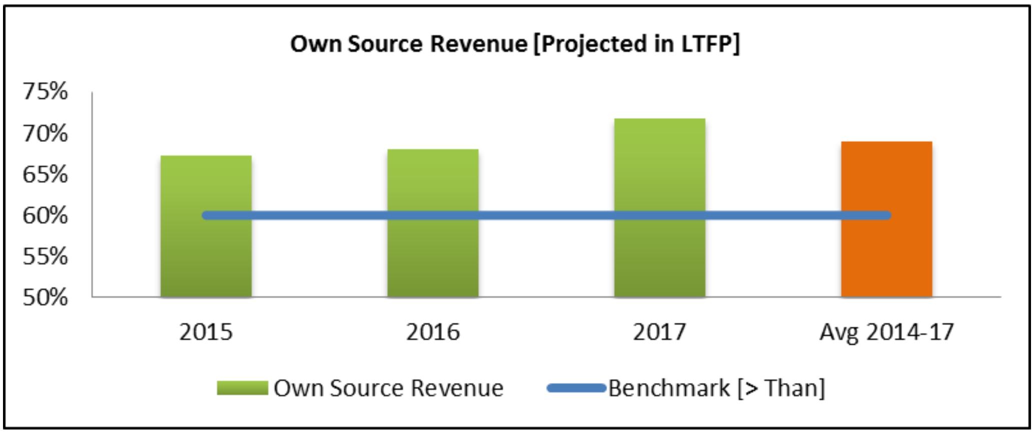
Even with this imposition, our ratio remains above the benchmark and will continue to do so into the future.

It is the view of BVSC that specific purpose grants should be excluded from the denominator of this ratio as the funds are received to perform a restricted function that otherwise would not be delivered. They are generally an in and out proposition and are usually on behalf of some other level of Government.

Own Source Revenue Ratio

2016-2017 Forecast Performance

The Own Source Revenue Ratio rolling three year average of 69.0 for 2016-17 does meet the benchmark of greater than 60%. The graph below shows the three years making up the forecast average result for 2016-17.



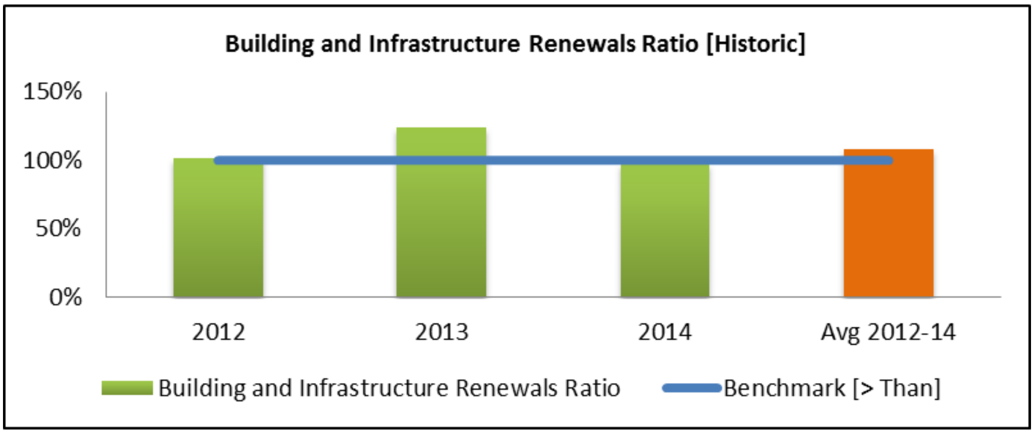
Explanation

As described above, Council does not plan to inherit specific purpose funding, nor does it plan for emergency events. As such, forecasting Council's operations minus these events shows how strong Council performs against this ratio.

Building and Infrastructure Asset Renewal Ratio

2013-2014 Performance

The Building and Infrastructure Asset Renewal Ratio rolling three year average of 107.7 for 2013-14 does meet the benchmark of 100%. Council's performance as calculated by the OLG Self Assessment Tool is shown below:



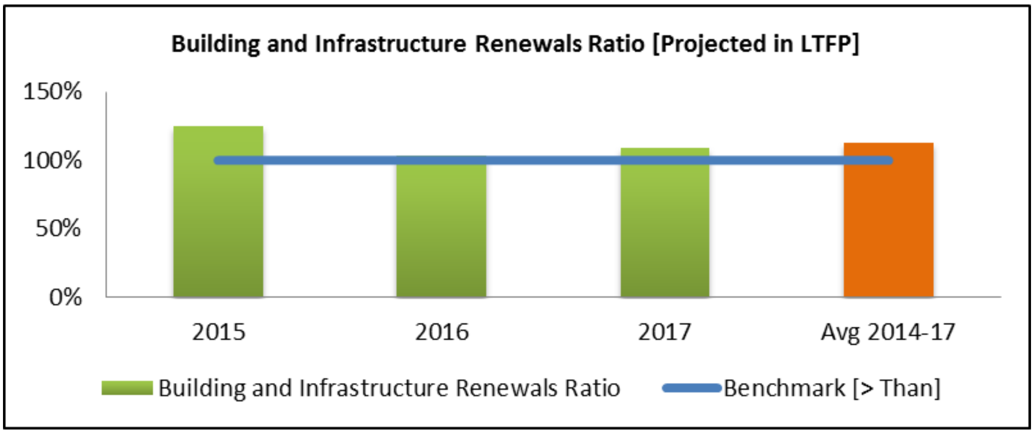
Explanation

For the past 6 years Council has spent an enormous amount of time planning, designing and implementing its Long Term Financial Plan. One of the initial outcomes Council wanted to achieve was the funding of its renewals in full. The ratio above demonstrates that Council has been successful in its ability to achieve that goal. Each year Council plans and achieves its goal of spending the equivalent of its depreciation on renewing its asset base. This strategy will continue into the future.

Building and Infrastructure Asset Renewal Ratio

2016-2017 Forecast Performance

The Building and Infrastructure Asset Renewal Ratio rolling three year average of 113.0 for 2016-17 does meet the benchmark of 100%. The graph below shows the three years making up the forecast average result for 2016-17.



Explanation

As discussed above, the future benchmark continues to show Council's commitment to allocating sufficient funds towards the renewals of its assets.

Infrastructure and service management

Infrastructure and Service Management				
Benchmark	2014 Performance (3 Year Average)	Meets Benchmark?	2017 Forecast (3 Year Average)	Meets Benchmark?
Infrastructure Backlog Ratio	13.65	X	2.00	✔
Asset Maintenance Ration	115.0	✔	156.00	✔
Debt Service Ratio	3.82	✔	5.00	✔

Explanation:

In this area councils demonstrate how effectively they are managing their infrastructure as increasing backlogs may affect a council's ability to provide services and remain sustainable. It also highlights if a council is spending enough on maintaining its assets to avoid increasing its infrastructure backlog and indicates whether a council is using debt wisely to share the lifelong cost of assets and avoid excessive rate increases.

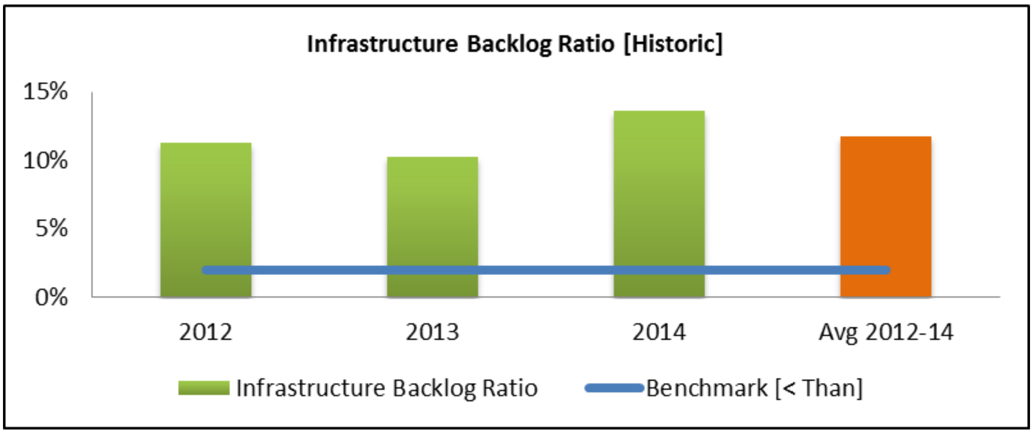
Council comment against performance:

1. Council does not currently meet the Infrastructure Backlog Ratio. Actions have been commenced to address this which are listed in the action plan.
2. Council currently meets the Asset Maintenance Ratio: No significant changes required.
3. Council currently meets the Debt Service Ratio: No significant changes required.

Infrastructure Backlog Ratio

2013-2014 Performance

The Infrastructure Backlog Ratio rolling three year average of 13.65 for 2013-14 does not meet the benchmark of less than 2%. Council's performance as calculated by the OLG Self Assessment Tool is shown below:



Explanation

Due to the unaudited nature of the Special Schedule 7, where the data for this ratio is drawn from, Council has identified an issue with the assumptions used to calculate and publish the financial data relating to this ratio.

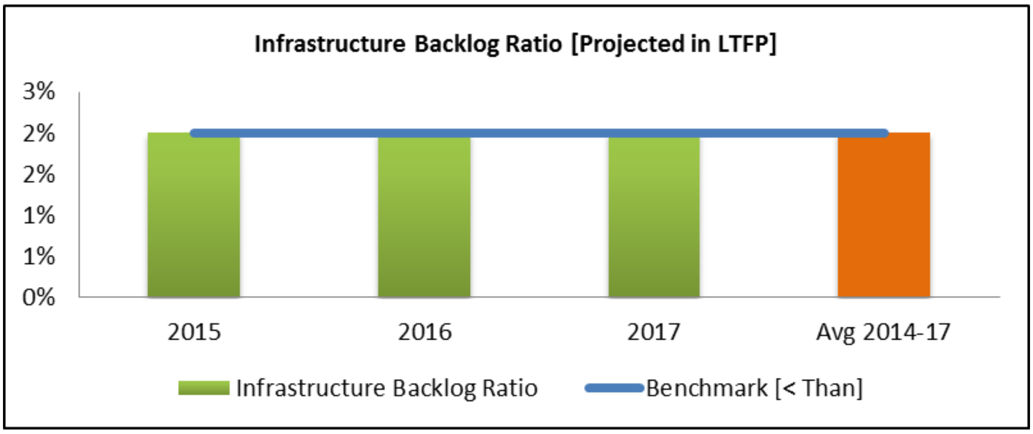
Council has traditionally reported the backlog to effectively be the value of work to return an asset to a new standard. The Special Schedule 7 indicates to report the value of works required to be of a satisfactory value and that satisfactory is a standard that is to be not complained of. So even though BVSC uses a point scoring system to determine level of service and intervention levels the definition of a condition that is not complained of led to a conclusion that the asset was to be brought back to new standard. Hence the very high value of the Infrastructure Backlog Ratio.

Council is undertaking an review of this schedule with the assistance of our external audit firm in order to redefine the value of backlog under the now agreed upon view that the satisfactory standard is in fact the equivalent of the acceptable standard or the level of service agreed in Council's Community Strategic Plan through its Asset Management Plans. Council anticipates a significant reduction in this ratio commencing immediately.

Infrastructure Backlog Ratio

2016-2017 Forecast Performance

The Infrastructure Backlog Ratio Ratio rolling three year average of 2.00 for 2016-17 does meet the benchmark of less than 2%. The graph below shows the three years making up the forecast average result for 2016-17.



Explanation

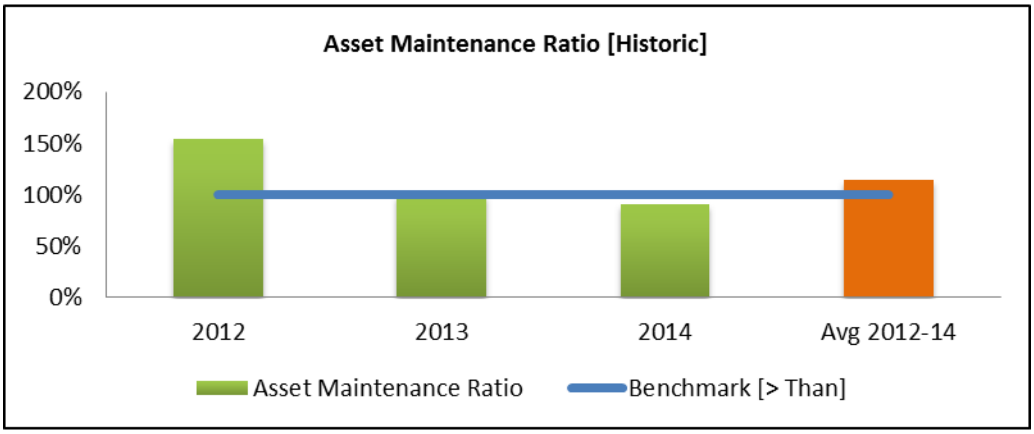
As discussed above. Council has an adopted backlog policy of 2%. Council is of the view that its current backlog is less than 2%, however due to an interpretation issue outlined above Council is working to redraft the values placed into this ratio which will show a significantly reduced value.

Over the past 7 years BVSC has undertaken an enormous amount of work integrating Asset Management Planning and Financial Management to ensure that this Council can meet its infrastructure requirements sustainably into the future. The Council does not have a back log issue today, nor will it have one into the future based on our current Asset Management Plans and Long Term Financial Plan.

Asset Maintenance Ratio

2013-2014 Performance

The Asset Maintenance Ratio rolling three year average of 115.0 for 2013-14 does meet the benchmark of greater than 100% average over three years. Council's performance as calculated by the OLG Self Assessment Tool is shown below:



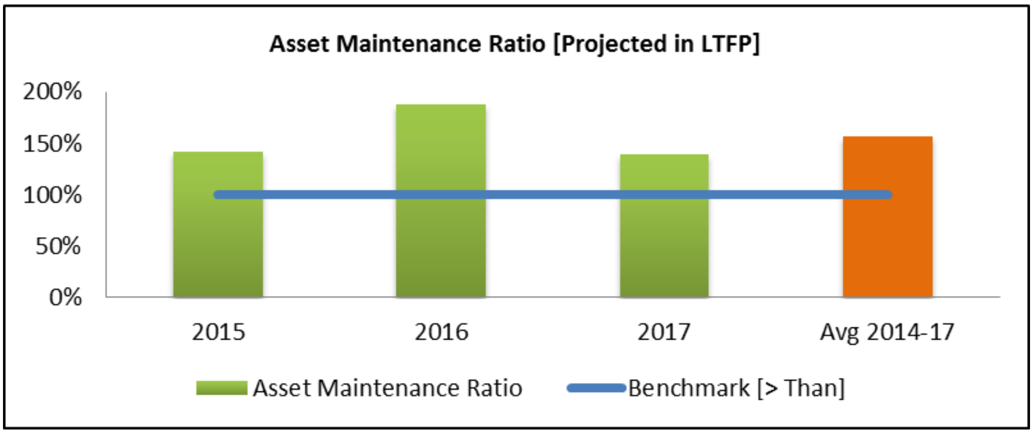
Explanation

Over the past couple of years Council has spent a lot of time and effort reclassifying maintenance work into operating expenditure or asset maintenance. The large dip from 2012 to 2013 in the graph above illustrates that the asset maintenance spend is decreasing, in fact the 2012 is probably inflated with operating expenditure that does not impact the value of the asset. This is a common error in Local Government. Now that we have correctly classified the type of work we are doing our Asset Management Plans can outline what type of work we want to provide and where to provide it. We anticipate this ratio to remain healthy for BVSC well into the future.

Asset Maintenance Ratio

2016-2017 Forecast Performance

The Asset Maintenance Ratio rolling three year average of 156.00 for 2016-17 does meet the benchmark of greater than 100% average over 3 years. The graph below shows the three years making up the forecast average result for 2016-17.



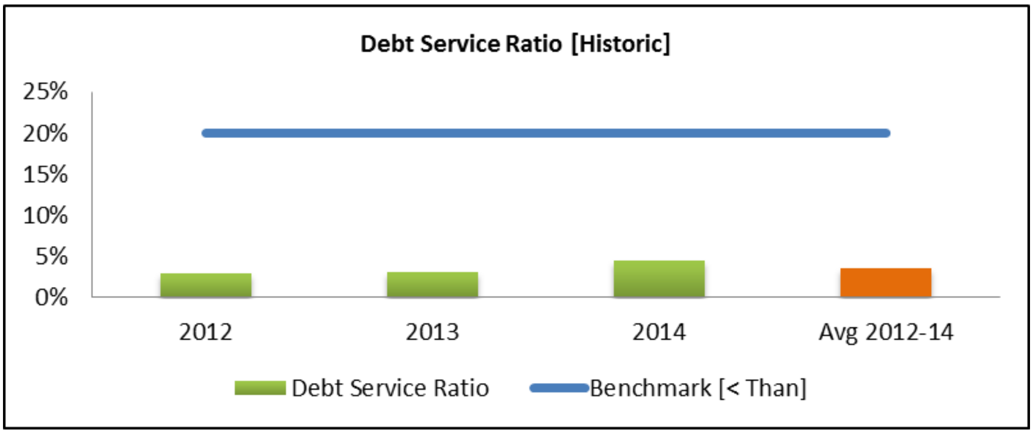
Explanation

As discussed above, Council has spent a large amount of time training its workforce to accurately identify between operating expenditure and asset maintenance. Now that that training has occurred and staff can classify their work correctly we expect to see significant amounts of money spent on asset maintenance, pushing the ratio well above the benchmark.

Debt Service Ratio

2013-2014 Performance

The Debt Service Ratio rolling three year average of 3.82 for 2013-14 does meet the benchmark of greater than 0% and less than or equal to 20% average over three years. Council's performance as calculated by the OLG Self Assessment Tool is shown below:



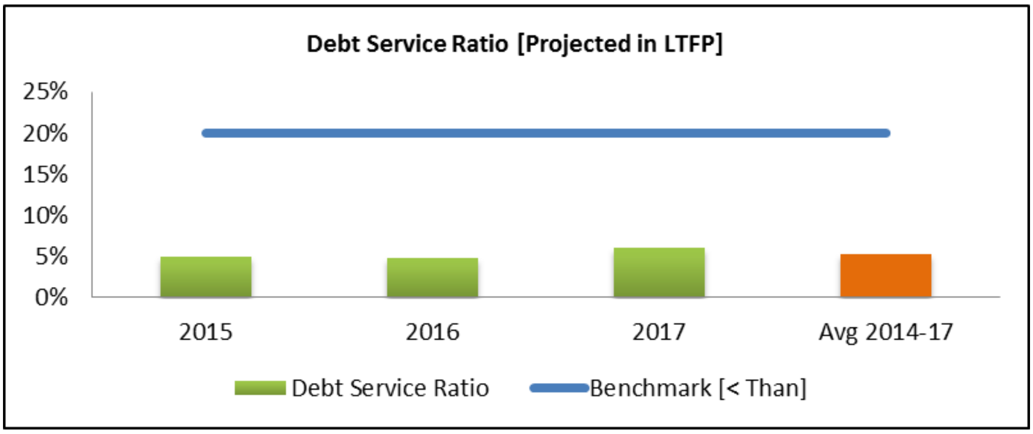
Explanation

Council has minimal debt currently. This allows Council to strategically decide how to fund larger infrastructure projects into the future. Council has spent its recent past on getting the basic structures of asset management right within the organisation. This has meant minimal borrowings in the General fund over recent history.

Debt Service Ratio

2016-2017 Forecast Performance

The Debt Service Ratio rolling three year average of 5.00 for 2016-17 does meet the benchmark of Greater than 0% and less than or equal to 20% average over three years. The graph below shows the three years making up the forecast average result for 2016-17.



Explanation

In its adopted Finance Strategy Council has resolved to investigate the use of borrowings towards larger capital projects. The adopted Long term Financial Plan does include some additional borrowings for committed capital projects but in large Council resolved to work through a project prioritisation process to determine the type of project that the community needs and the timing of those projects. Borrowings will then be matched accordingly. It is not expected that Council will exceed a debt service ratio of more than 10% at any time.

Efficiency

Efficiency				
Benchmark	**2014 Performance**	**Meets Benchmark?**	**2017 Forecast**	**Meets Benchmark?**
Real Operating Expenditure per Capita	1.47	X	1.31	✔

Explanation:

This area indicates how well councils are utilising economies of scale and managing service levels to achieve efficiencies.

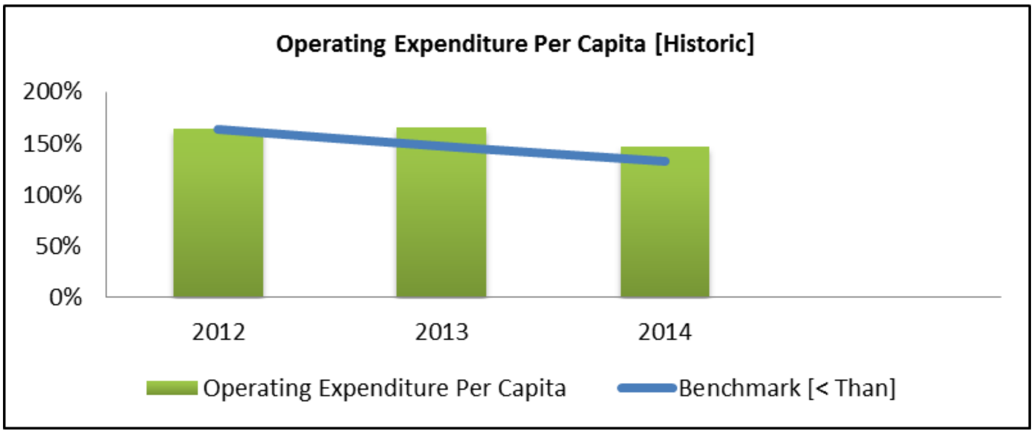
Council comment against performance:

1. Real Operating Expenditure per Capita: While our ratio currently fails to meet the benchmark that is due to the fact that in 2012, 2013, & 2014 Council was in receipt of large amounts of Emergency funding, expenditure of which is classified as operating expenditure. If Council was not in receipt of these funds the ratio would have been met. Without any non-recurrent funding impacts, Council meets this ratio over the forecast ratio timeline.

Real Operating Expenditure

2013-2014 Performance

The Real Operating Expenditure Ratio rolling three year average of 1.47 for 2013-14 does not meet the benchmark of decrease over time when the deflation is taken into account. Council's performance as calculated by the OLG Self Assessment Tool is shown below:



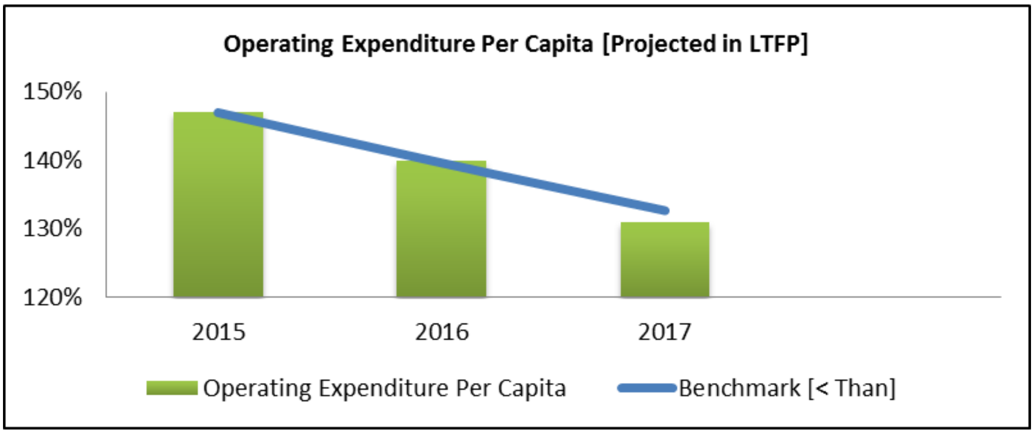
Explanation

Council has an adopted position as part of its financial strategy that it seek out operational improvements of 1% per annum compounding. These targets have been achieved each year for the past 5 years. However, Council is in receipt of numerous specific purpose grants that alter the level of service offered to the community. Under this ratio that triggers a higher expense per capita and therefore a failure to meet the benchmark. If Council was to exclude the specific purpose funding received over the past 3 years then BVSC would meet this benchmark comfortably.

Real Operating Expenditure

2016-2017 Forecast Performance

The Real Operating Expenditure rolling three year average of 1.31 for 2016-17 does meet the benchmark over time. The graph below shows the three years making up the forecast average result for 2016-17.



Explanation

Council does not plan for specific purpose funds nor the corresponding expenditure. By their nature these programs are generally short term and occur infrequently but generally in large values.

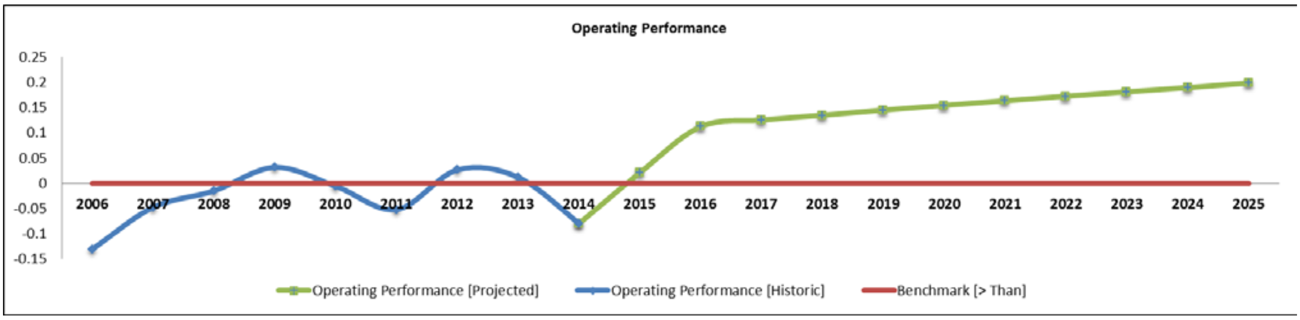
Council's policy of enforcing operational improvements will manifest itself into a positive ratio in this category.

Section 3: Becoming Fit for the Future
3.1 Sustainability

Ratio : Operating Performance

Do we currently meet the ratio? - No

Will we meet the ratio by 2017 ? Yes



What principles are in place to ensure we meet this ratio?

Principle: 'Narrow the gap'

What does this Principle mean? 'Narrow the Gap' refers to a model whereby an expenditure item is mapped to a funding source. This way if a change occurs to the expenditure item, then the corresponding funding source is also altered and vice versa. This could result in funds being reallocated, or additional funds needing to be sourced.

By knowing where our organisation has the highest gap between the funding source and the cost of delivering the service, we can begin to shift resources to close that gap. By consistently monitoring and adapting to keep the gap as narrow as possible Council will continue to be sustainable into the future.

So how are our expenditure items funded? The following table shows the alignment of funding source to item:

Funding Source	**Expenditure Item**
Rates and Charges	Infrastructure, Maintenance and Renewal
Fees and Charges	Operating Costs
Grants and Contributions	Services Provided
Debt and Reserve Funds	Upgrades and Strategic Renewals

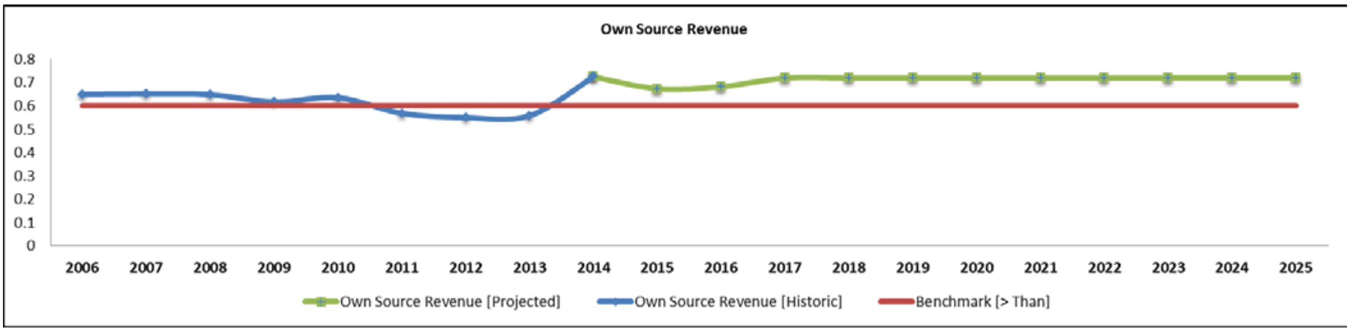
How does this principle support this ratio?

By narrowing the gap most of Council's operating expenditure is tied to an operating income. Therefore any reduction in operating income will see corresponding reduction in operating expense, thus enabling council to maintain a breakeven financial result.

Ratio : Own Source Revenue

Do we currently meet this ratio ? Yes

Will we continue to meet this ratio in the future ? Yes



What principles are in place to ensure we continue meet this ratio?

Principle : Grants

What does this Principle mean? Council accepts grants, both operating and capital from other levels of government to assist in the delivery of services and projects across the community. The BVSC has been especially successful in the attraction of grant funding over the past ten years. A large number of projects and services would not have been delivered without the support of other government funds.

When Council accepts a grant the relative function of Council must illustrate what that grant funds will provide. Budgets are drawn up linking expenditure to the grant funding so that in the event the grant is withdrawn the corresponding expenditure is also withdrawn.

In terms of policy, Council applies for grants as long as the programs are consistent with Council's Community Strategic Plan, and does not unduly redirect Council resources from other committed endeavours.

There are two types of grants;

Specific Purpose: These grants are offered to deliver a specific project or service. The accepting body must comply with the conditions issued by the funding authority.

General Purpose: These grants can be used by the accepting body in the most effective manner in which they see fit.

Within these two types of grants there can be operating grants and capital grants. This is more of an accounting treatment as the two types relate to the service or project being delivered. If the project is a capital work then the grant is a capital grant, if the grant funds a service then it is an operating grant.

Authority to Accept Grants:

If a grant can be delivered and resourced 100% from the funds accepted and the accepted program does not redirect Council resources away from committed projects or services then the Group Manager of that particular function can accept the funds. Usually grants for new services are reported to Council for formal resolution.

If a grant requires matching contribution or resources that can be met 100% from within the function accepting the funds with no need for additional funding and does redirect Council resources away from committed projects or services then the Group Manager of that particular function can accept the funds if the process achieves an adopted outcome. Any new project is reported to Council for resolution.

If a grant requires matching contribution or resources that cannot be met within that particular function accepting the funds and contribution is sought from outside the function. A report to Council must be prepared and Council must resolve to accept the funds and resolve where to redirect the required funding from. Council's CSP actions and the operating budget will then be amended accordingly.

In the course of accepting grants, Council will impose an administrative fee on the program. This assists Council with the additional administrative burden that grants create. There is generally a large amount of paperwork involved to the issuing authority, including in some cases external auditing requirements

How does this principle support this ratio?

By rigorously implementing the pricing policy and promoting cost recovery for most of Council's services allow Council to generate own source revenue through a 'user pays' model thus alleviating reliance on government grants.

Principle: Investments

What does this principle mean? Council holds public funds on behalf of the community. As such, Council employs an investment policy that is conservative but flexible enough to take advantage of opportunities in the market.

Council only invests in cash through term deposits. Council can access the wholesale market and is therefore often offered better than retail interest rates on its investments.

Council spreads its investments across a number of financial institutions and our policy outlines the relevant institution rating spread as well as the length of term.

Unless otherwise specified Council's general rule is that interest earned on public funds are placed back into the General Revenue pool.

How does this principle support this ratio?

By maximising investment returns from surplus funds, council creates additional own source revenue.

Principle: Rates and charges

What does this principle mean? Council's Rates and Charges are issued in accordance with the Local Government Act.

Council pools its rates and charges and then assigns them to the functions of Council in line with the adopted priority of funding model.

If Council has a currently active Special Variation that is tied to a specific purpose then those funds will show in the Rates and Charges section of the related functional budget

How does this principle support this ratio?

Rates and Charges are the biggest contributors to Council's own source revenue. Therefore utilisation of General Purpose Rates, Specific Annual Charges and Special Variations allows Council to achieve above benchmark ratio.

Principle: Fees and Charges

What does this principle mean? Council's fees and charges are an integral part of Council's operating budget. Council has a position that all fees and charges should be fully cost recoverable and revenue through fees and charges be maximised to alleviate pressure on other funding sources such as property rates. Fully recoverable means that a charge should cover 100% of the cost of delivering whatever service that fee relates to. It should not cost Council to deliver that service.

This cannot be achieved in all cases. For example, some charges are set by external authorities, some charges are by necessity subsidised by other forms of revenue.

In each of these cases the Fees and Charges register outlines whether a charge is fully recovered, subsidised, or capped.

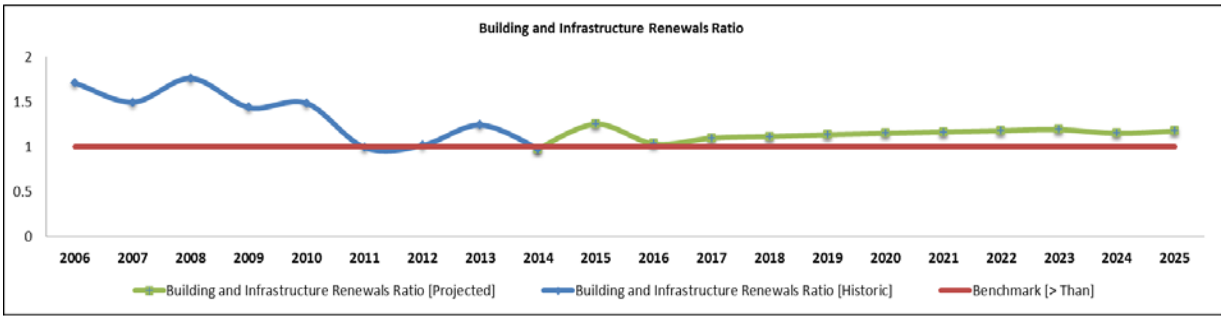
How does this principle support this ratio?

By rigorously implementing the pricing policy and promoting cost recovery for most of Council's services allow Council to generate own source revenue through a 'user pays' model thus alleviating reliance on government grants.

Ratio : Building and Infrastructure Renewal Ratio

Do we currently meet this ratio ? Yes

Will we continue to meet this ratio in the future? Yes



What principles are in place to ensure we continue meet this ratio?

Principle: Priority of funding

What does this principle mean? Although similar to 'Narrow the Gap', having a funding priority spells out which funding source should be expended prior to seeking an additional source. The 'Priority of Funding' principle is about how we pay for things.

For example, we say that planning services should be funded by Fees and Charges. However, many of those fees and charges are fixed by the NSW State Government. It is impossible for Council to match the service to the revenue as the State also imposes the services to be offered and allocates the charge. Therefore, in some instances, Council needs to subsidise the service from another source of revenue. What source of revenue should be looked at first?

The diagram below outlines the priority of funding for each of the following areas, Operational Costs and Services, Renewal and Maintenance and Strategic Renewals and Upgrades. The first priority for funding is through the upper level, working through all priority options. Before the next source of funding can be accessed, the previous source of funding needs to not only be expended but also shown to be maximised.

How does this principle support this ratio?

Since Council's priority of funding model promotes use of most of the guaranteed revenue streams such as Rates and Annual Charges towards Renewals, it increases Council's ability to maintain expenditure level above the required amount.

Principle: Working capital

What does this principle mean? Working capital is effectively the measure of an organisations uncommitted cash after all possible liabilities have been taken into account. An organisation should aspire to a healthy level of working capital as these funds would be what is called on in case of an emergency or an unforeseen financial event. Anywhere between 3%-5% of total expenditure (Operating & Capital) is considered a healthy level of working capital.

How does this principle support this ratio?

An adequate Working Capital level ensures that council is able to maintain its renewal levels even when unforeseen circumstances arise.

Principle: Debt

What does this principle mean? In many instances it can be reasonably stated that the benefit to specific assets will be derived from present and future generations (or in part) then it is reasonable that debt can be used to spread the cost of that asset to those future users.

With this in mind, Council should not shy away from the informed use of debt to fund strategic projects that provide improved facilities to future generations of community users.

The main measure of debt relates to the percentage of debt repayments compared to annual revenues. The Debt Servicing Ratio is benchmarked in local government at being less than 20%.

In order for debt to be considered as a potential funding source, the project must be a Strategic Renewal or Upgrade, the life of the debt must not exceed the useful life of the asset, and the asset needs to be able to generate sufficient revenues to meet all borrowing costs.

How does this principle support this ratio?

By utilising borrowings, Council is able to maintain a healthy renewal spending which is greater than consumption of Council's assets.

Principle: Renewal and maintenance

What does this principle mean ? Council's Asset Management Plans (AMPs) illustrate the funding required to keep Council's existing assets at an acceptable condition. The AMPs make up a part of the resourcing strategy along with the financial strategy and the workforce strategy.

Council has resolved to keep its backlog at no more than 2%.

The finance strategy accepts this target and the LTFP is calculated to achieve this.

Council delegates the individual programs around renewal of assets to the functional managers in the relevant functions of Council. Those managers are provided with budgets deemed appropriate to deliver those outcomes. Maintenance and renewals are considered a program based budget. Staff work together to ensure that the funding is being spent as per the relevant plans and report back to Council on any deviation.

Where a project is considered significant, whether as an upgraded asset or a highly visible renewal, Council treats these assets in a project based budget. This means that Council allocates a certain amount of capital as a one off allocation to commence and finish the project. This provides a consistent project management framework which includes a financial plan, a community engagement plan, and implementation plan being developed for each project with progress reported to Council quarterly.

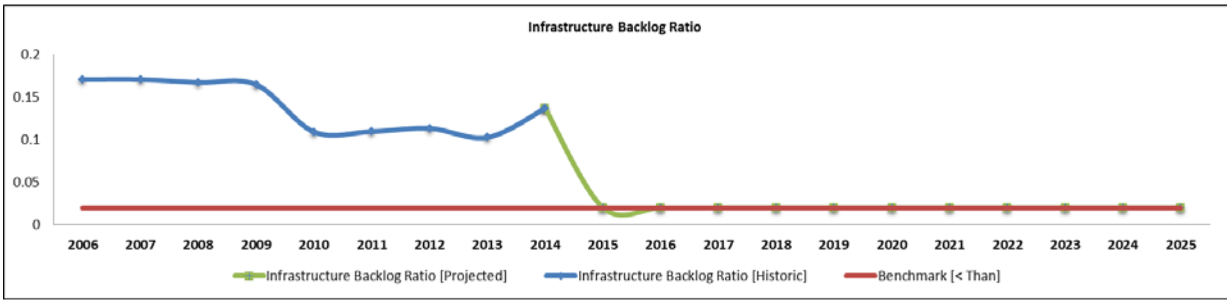
For items listed as significant and therefore project funded, Council keeps a Contingency Reserve equal to 30% of the value of these projects planned in any given year. This is to ensure that in the case of emergency, or scope change Council is not left short of funds for its other commitments. This reserve is calculated through the LTFP process and is included in the transfer to reserves in the relevant year.

How does this principle support this ratio?

By having a programmed approach to renewal, Council in its LTFP is able to maintain a consistent amount of Renewal which is greater than the rate at which these assets are being consumed.

3.2 Infrastructure and Service Management

Ratio: Infrastructure Backlog Ratio



What principles are in place to ensure we continue meet this ratio?

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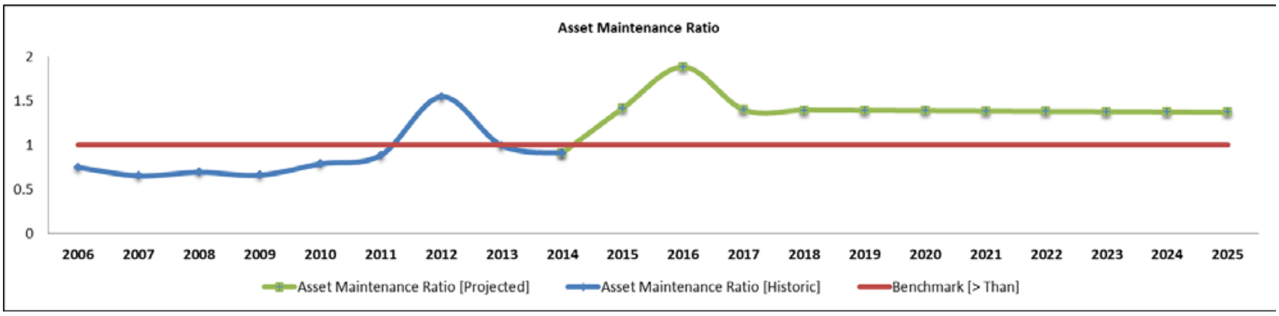
How does this principle support this ratio?

By having a programmed approach to renewal, Council in its LTFP is able to maintain a consistent amount of Renewal which is greater than the rate at which these assets are being consumed. Therefore enabling Council to maintain a backlog of less than 2%

Ratio: Asset Maintenance



What principles are in place to ensure we continue meet this ratio?

Principle: Renewals and maintenance

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How does this principle support this ratio?

By having a programmed approach to renewal, Council in its LTFP is able to maintain a consistent amount of maintenance which is greater than the requirements of the AMPs. Therefore enabling Council to maintain a rate of greater than a 100%

Principle: Priority of funding

What does this principle mean? Although similar to 'Narrow the Gap', having a funding priority spells out which funding source should be expended prior to seeking an additional source. The 'Priority of Funding' principle is about how we pay for things.

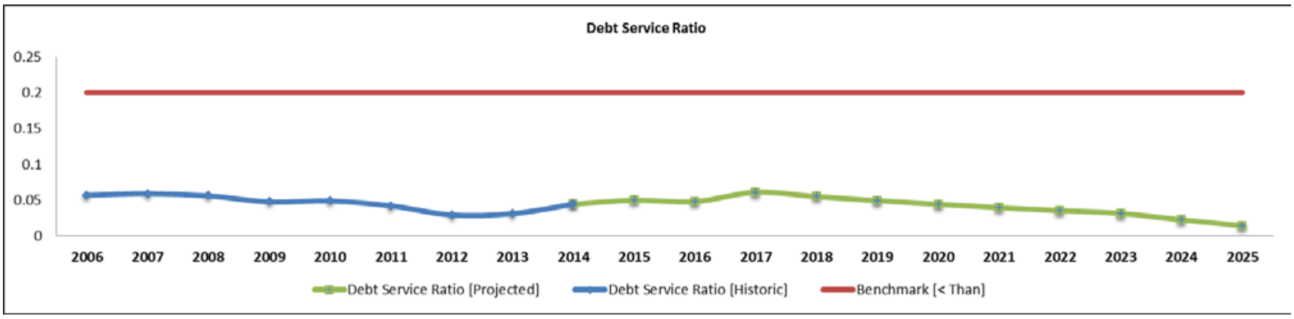
For example, we say that planning services should be funded by Fees and Charges. However, many of those fees and charges are fixed by the NSW State Government. It is impossible for Council to match the service to the revenue as the State also imposes the services to be offered and allocates the charge. Therefore, in some instances, Council needs to subsidise the service from another source of revenue. What source of revenue should be looked at first?

The diagram below outlines the priority of funding for each of the following areas, Operational Costs and Services, Renewal and Maintenance and Strategic Renewals and Upgrades. The first priority for funding is through the upper level, working through all priority options. Before the next source of funding can be accessed, the previous source of funding needs to not only be expended but also shown to be maximised.

How does this principle support this ratio?

Since Council's priority of funding model promotes use of most of the guaranteed revenue streams such as Rates and Annual Charges towards maintenance, it increases Council's ability to maintain expenditure level above the required amount.

Ratio: Debt Service



What principles are in place to ensure we continue meet this ratio?

Principle: Narrow the Gap

What does this Principle mean? 'Narrow the Gap' refers to a model whereby an expenditure item is mapped to a funding source. This way if a change occurs to the expenditure item, then the corresponding funding source is also altered and vice versa. This could result in funds being reallocated, or additional funds needing to be sourced.

By knowing where our organisation has the highest gap between the funding source and the cost of delivering the service, we can begin to shift resources to close that gap. By consistently monitoring and adapting to keep the gap as narrow as possible Council will continue to be sustainable into the future.

So how are our expenditure items funded? The following table shows the alignment of funding source to item:

Funding Source	**Expenditure Item**
Rates and Charges	Infrastructure, Maintenance and Renewal
Fees and Charges	Operating Costs
Grants and Contributions	Services Provided
Debt and Reserve Funds	Upgrades and Strategic Renewals

How does this principle support this ratio?

By narrowing the gap, debt is only used to fund Upgrades or Strategic Renewals therefore Council is unlikely to see an increase in this ratio unless there is a massive spike in building of new assets or high profile renewals.

Principle: Priority of Funding

What does this principle mean? Although similar to 'Narrow the Gap', having a funding priority spells out which funding source should be expended prior to seeking an additional source. The 'Priority of Funding' principle is about how we pay for things.

For example, we say that planning services should be funded by Fees and Charges. However, many of those fees and charges are fixed by the NSW State Government. It is impossible for Council to match the service to the revenue as the State also imposes the services to be offered and allocates the charge. Therefore, in some instances, Council needs to subsidise the service from another source of revenue. What source of revenue should be looked at first?

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How does this principle support this ratio?

By utilising new debts for funding of Upgrades or Strategic Renewals only Council is unlikely to see an increase in this ratio unless there is a massive spike in building of new assets or high profile renewals.

Principle: Debt

What does this principle mean? In many instances it can be reasonably stated that the benefit to specific assets will be derived from present and future generations (or in part) then it is reasonable that debt can be used to spread the cost of that asset to those future users.

With this in mind, Council should not shy away from the informed use of debt to fund strategic projects that provide improved facilities to future generations of community users.

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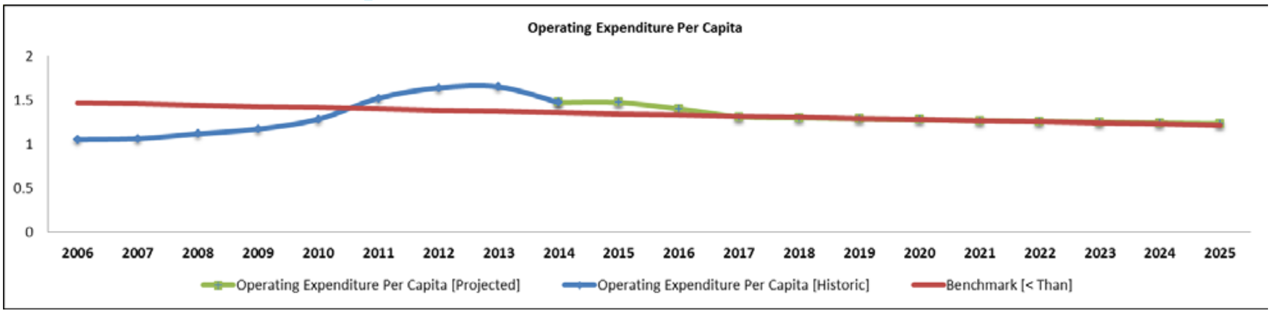
In order for debt to be considered as a potential funding source, the project must be a Strategic Renewal or Upgrade, the life of the debt must not exceed the useful life of the asset, and the asset needs to be able to generate sufficient revenues to meet all borrowing costs.

How does this principle support this ratio?

This principle emphasises that new or renewed asset created through the use of debt should generate sufficient revenues to meet debt serving cost of the borrowings therefore Council will be able to consistently achieve an above benchmark ratio.

3.3 Efficiency



Principle: Continuous improvement

What does this principle mean? Sound financial management is the responsibility of all Council employees. As such, there needs to be mechanisms in place to ensure that the entire organisation respects, understands, and applies sound financial practises into their daily work.

Council needs to provide high quality development opportunities for employees to ensure they are adequately skilled in not only managing their financial responsibilities, but to also assist in enhancing Council's financial policies and practises.

How does this principle support this ratio?

By operating in a continuous improvement framework, we strive to achieve efficiency gains and thus reduce the operating expenditure per capita in real terms

Principle: Budgeting

What does this principle mean? Council's annual operating budget is directly derived from the Long Term Financial plan. The Council budget is a zero balance budget that incorporates non-operating elements to illustrate Capital expenditure and all cash funding sources such as loans, reserves and contributions. This provides the full information required to understand how Council is funding its operations. A standard operating budget does not include all revenues and excludes capital expenditure.

Council provides its managers a top down budget by function. This means that functional managers are provided a "completed" budget that is in line with the LTFP. Managers then can amend the budget for their specific purposes. However any amendment that does not balance within the function must be linked to the Community Strategic Plan and must be signed by the General Manager with funding sources clearly identified prior to being resolved by Council.

Once adopted, Council's budget "votes" are stored in the financial information system whereby managers can track actual expenditure against budgeted expenditure.

Each quarter staff are required by legislation to report to Council via the Quarterly Budget Review Statement (QBRS). This report must include specific notification of any substantial variance to the year to date (YTD) budget. All variances are to be documented with in the QBRS.

The definition of significance is set by the individual council. For BVSC significance is defined as a variance that is **greater than 10% of the total vote** for that element.

How does this principle support this ratio?

By budgeting and tightly monitoring the progress during the year, ensures Council achieves its forecasted results at year end.

Principle: Applying Local Government Cost Index

What does this principle mean? The inflationary measure for local government is named the Local Government Cost Index (LGCI). It is more commonly referred to as the Rate Peg. The LGCI is calculated by IPART on behalf of the NSW Office of Local Government (OLG).

IPART use a theoretical "standard" council to provide a base weighting as to how a Council should distribute its revenue across its operations (see effective weight column in table below). It then calculates how it believes each of those elements will inflate in the next twelve months. The sum of those individual inflationary calculations are used to produce the LGCI. It should be noted that the IPART and OLG also impose an efficiency factor in the inflationary measure each year.

Council traditionally applied the LGCI as a standard inflationary measure across its entire budget. Recently BVSC changed it approach to indexing each element individually. This assists Council is applying more realistic inflation across the breadth of the organisation. As an example, consider employment costs. Council is bound by a NSW staff award in terms of indexing wages and allowances. If Council was to apply the listed LGCI of 2.47% when the award increase is 2.7% then every single budget relating to salaries would be under funded by 0.23%.

This LGCI calculation is published by IPART annually is used in applying the inflation to Council's operating budget.

How does this principle support this ratio?

By local government cost index has a built in efficiency factor thus application of the indexation categorically across Council's expenditure profile results in achievement of efficiency gains thus reducing operating expenditure per capita in real terms.