



URANA SHIRE COUNCIL

In the middle of everywhere



URANA COUNCIL: BUSINESS CASE

FOR BECOMING A FIT FOR THE FUTURE RURAL COUNCIL IN THE RIVERINA JOINT ORGANISATION

IAB JOB No. 3060

FINAL JUNE 2015

COMMERCIAL IN CONFIDENCE



EXECUTIVE SUMMARY

BACKGROUND

Urana Shire Council is a regional council located in the Riverina in between the Murray and the Murrumbidgee regions of New South Wales. It is the smallest NSW council by population, and is in Group B Council for the purposes of the NSW Government's *Fit for the Future* (FftF) reforms. TCorp's Financial Stability Rating for the NSW Local Government Sector Report (2013) found that Urana Shire Council has a 'weak' FST and a 'neutral' outlook.

The Independent Local Government Review Panel (ILGRP) recommended that Urana Shire Council **merge with Corowa** or become a Rural Council in Upper Murray Joint Organisation (JO).

At the time of the launch of the Joint Organisation pilots, Urana Shire Council joined the Riverina Joint Organisation pilot reflecting its membership and close links with the Riverina Eastern Regional Organisation of Councils. Urana Shire Council has been an active member of the Riverina JO since the Council considers working closely with neighbouring councils to be important for delivering efficient and effective services to its community while preserving its socio-economic character consistent with its strategic priorities. This belief is based on its past successful experience of working with neighbouring councils on a range of issues, such as library and planning and assessment services.

Urana Shire Council has approached Corowa and other neighbouring councils to progress discussions on a possible merger. Preliminary estimates show that the cost of a merger with Corowa Council is expected to entail costs of about \$5.4 million and very likely negative socio-economic outcomes for the five population groups in Urana. A merger is expected to lead to internal migration out of the Urana Local Government Area putting at risk services to the remaining population. This estimate of cost is also well in excess of any possible value being generated for the two LGA communities. This discussion has been tempered by a realisation that despite a merger, the new merged entity will still not have adequate operational scale to realise greater efficiencies and will need to operate collaboratively with a JO. This is particularly so because the spatial spread of merged councils will increase and the relative sparseness of population distribution, and large asset bases such as road networks, will still be an issue – it will possibly require maintaining distributed depots and operations with corresponding administrative management overhead of coordination, communication and performance monitoring.

This business case for Urana Shire Council to be classified as a Rural Council examines the recent operational performance of the Council and develops a high-level action plan for the medium to longer term to ensure that Urana becomes Fit for the Future. The objective of the business case was to consider actions and build capacity for the Council to continue to deliver services to its local community and be part of a broader regional strategic dialogue that ensures that amongst other matters the Government's Regional Action Plans are implemented effectively.

RECENT HISTORY

Urana Shire Council is emerging from the aftermath of severe weather events that impacted its infrastructure. These flood events followed an extended once-in-a-century drought. As a result Council operations had to be re-prioritised to accommodate addressing damage to the infrastructure assets the community relies on. Earlier, the extended drought had impacted the population leading to higher than expected levels of outbound migration and consequent loss of population.

Since 2010 the level of asset management work handled by Urana Shire Council has been almost twice the normal/planned level of activity – an additional \$9 million over three years as opposed to an ordinary/planned level of activity of about \$5 - \$6 million per year over a three-year period. This activity was supported by natural disaster grants as well as infrastructure grants by the State and Commonwealth Governments. The result of the severe weather events and Council operational response has been to lower the own source revenue, increase asset management expenditure and a build-up of required backlog maintenance moderated by recent asset management activity.

The Council is now at the end of this high-level of infrastructure activity and is planning operations from 2015/16 onward that reflects stability of operations. Council expects fewer exigencies that require prompt action and/or putting some aspects of day-to-operation on hold as has happened over the past five years.

ACTION PLAN

A careful examination of Urana Shire Council's operations, recent initiatives and opportunities shows that the Council has considerable scope to engage in a range of improvement initiatives. These include:

Special rate variation applicable from 2016/17 rating year: Council is planning to seek four 10% increases above the rate peg for the 2016/17, 2017/18, 2018/19 and 2019/20 years. This has been modelled into the forward projections. Work on preparing the submission (that will require community consultation) is expected to be commenced shortly so that the Council can meet the expected IPART time-line (notice of intention to seek an SRV by mid-December 2015 and a formal submission by mid-February 2016).

Loan: Council is considering taking out a small external loan of \$200,000 in 2015/16. This essentially amounts to rolling over the existing loan (sewer) that will be repaid fully in the 2015/16 year. It is expected that this loan will help to smooth any cash flow impacts as funds received from government can tend to be 'lumpy'. The loan amount will be used to invest in long-term/fixed assets thereby ensuring intergenerational equity is achieved.

Shared resource sharing: Urana will continue to work with neighbouring councils to deliver services to the community by sharing resources. This will help to deliver services that are cost effective as well as maintain the community's expected levels of service. Urana has experience in entering into these arrangements as evidenced by the Riverina Library (a mobile service), shared/outsourced environmental planning and assessment activities etc. The proposed JO model presents a useful vehicle for doing more in this area, especially since the Government is proposing to provide recognition to JOs in governing legislation which will empower JOs to deliver for member councils in contrast to the current Regional Organisation of Councils model. It is noted

that Urana Shire Council and Jerilderie Shire Council are considering a joint Director Planning position for both councils.

Speciality services: All neighbouring regional/rural councils face similar service delivery challenges especially with respect to activities that are required episodically and having a qualified standing work-force for these activities is not prudent. By sharing such responsibilities it is possible for a few contiguous councils to specialise in separate functions/capabilities ensuring that together they can deliver superior services and have minimal down/idle time in these areas. This approach will also help to build capability and for staff to engage in professional development and have career development pathways open to them instead of an incipient risk of services being shut down. Some examples of such initiatives could be in the area of maintenance of specialised structures/assets (e.g. swimming pools), engineering survey and design, environmental health etc.

Streamlined planning reporting and regulation: Working jointly with partnering councils on administrative processes related to planning, reporting and managing regulatory responsibilities will ensure that the administrative overhead associated with discharging these responsibilities will reduce while freeing up valuable management time to consider strategic responses to emerging issues and trends. Some examples of such activities that have been pursued successfully include joint acquisition of integrated planning and reporting software tools, engaging specialist skills for environmental planning and assessment activities and management of regulatory responsibilities (e.g. Companion Animals Act).

Council governance: The Council will actively consider its governance arrangements. This will include reducing the number of councillors, council operations (number of meetings, decision making, reporting etc.) as well as a greater use of section 355 committees noting that Urana Shire Council has been successful in operating a number of section 355 committees that have also encouraged significant volunteering by the community.

Service review: Council will continue with service reviews as well as the zero-based budgeting processes that have already been initiated. This will ensure that service organisation and work practices reflect modern practice and take advantage of technological developments, such as broadband, that will help deliver services at lower cost and/or of significantly superior quality. The objective of service reviews needs to be two-fold: cost of delivery as well as cost recovery in the context of community ability to pay in the context of community equity. In doing service reviews, service levels should also be reviewed closely for their alignment with the Community Strategic Plan. Employee productivity gains of 3% a year for the first two years declining to 0.5% over the projection period are projected as a consequence of service reviews that result in improved work practices and effective use of new technologies. Gains from effective procurement practice will also deliver savings through the use of Local Government Procurement panels and putting in place strategic procurement practice that carefully considers the Council's procurement requirements over the operating year. Gains over the projection period are forecast at 3% a year initially that reduce to 0.5% in the final years.

Contracted works: Council should develop a plan to increase its private source income. This needs to be done carefully as any business operation should be operated to ensure competitive neutrality and its impact on Council's core service obligations, i.e. any contracted work should not crowd-out legitimate council work/service delivery obligation to the community.

Capability development: Opportunities to up-skill staff are available, especially in the asset management area, to help put in place work-practices that deliver improved service outcomes – at lower cost and better quality. Integrated with the service reviews, this is an area that can also help to retain staff as it provides opportunities for professional and career development to them. This may also help to alleviate the risk of an ageing workforce in a regional location by reducing particular person risk by having a suitable succession plan.

Asset management: good practice asset management is an area of particular opportunity for Urana Shire Council. This would involve preparing:

- Updated asset management plans that reflect community strategic plan priorities and expected service levels.
- Asset information databases covering asset classification (hierarchy), specifications/attributes and condition data.
- Asset maintenance plans that are appropriate to technical and community levels of service.
- Condition survey routines.
- An asset refurbishment/replacement policy to prepare business cases to support decision making.

Effective asset management will require support of a suitable asset management system. It is expected that Urana Shire Council on its own may not be able to acquire and operate such a system on account of the considerable level of investment as well as the skills required to operate it effectively. Pursuing acquisition of an asset management system jointly with neighbouring regional councils is feasible and should be evaluated in detail, perhaps as an innovation fund project supported by the Office of Local Government.

It is noted that Urana Shire Council has recently updated its asset register, reviewed asset conditions of major asset groups (buildings and infrastructure), asset maintenance plans and asset valuation. It is recognised that this is an area for continued focus with an emphasis on continuous improvement practice.

Economic development: participate with JO in initiatives to attract industry, tourism and people to settle in the Shire by taking advantage of numerous State Government programs in these areas. These initiatives will help to maintain the rate base by maintaining (or slowing) the recent decline in the Shire population.

Joint Organisation

Implementation of service innovations will require working with like-minded neighbouring councils that share Urana Shire Council's ethos and business objectives. Joint Organisations present a useful structure for proposing and experimenting with alternatives to develop these initiatives in the short-term and embedding them in Council operations over the medium to long term. As noted above, the Government's proposal to recognise JOs in governing legislation will empower these organisations to effectively support member organisations.

IMPLEMENTATION

Senior management led by the General Manager would be responsible for implementation of these actions. While some of these are already in train, others may have to await development of the Joint Organisation pilot currently under way. It is recommended that these actions should be progressed where possible and the experience gained can then be parlayed into activities of the Riverina or Murray JO to help get more initiatives underway quickly. For actions that can be progressed by the Council itself (service reviews, some aspects of asset management, applying for a special rate variation etc.), a project plan with reporting metrics should be put in place with regular reporting to the Council.

2015 – 2025 PROJECTIONS

Historical performance of Urana Shire Council on the Fit for the Future benchmark ratios is shown below. It clearly demonstrates the impact of recent events and the changed priorities that the Council had to adopt to ensure the community had access to safe functioning infrastructure.

Assumptions that are modelled in the projections using 2014/15 year as the base year are:

- Successful application for four 10% special rate variations that then become part of the base.
- Employee cost productivity gains of 3% a year tapering steadily down to 0.5% towards the end of the projection period. This is considered in addition to a projected increase in employee related costs of 2.5% per annum. This saving projection includes expected savings from streamline governance arrangement of about \$45,000 per annum.
- Financial Assistance Grants, road maintenance block grants and other government assistance reflecting CPI/LGCI indices over the projection period.
- No additional expenses on account of severe weather events. If such events arise, the Council has the ability to meet the challenges through a combination of internal resources and support from government under the natural disaster relief arrangements.
- Maintenance backlog will be addressed progressively over the project period with a third of the 2015 backlog being addressed in 2015/16 and then progressively reduced by 25%, 20% and 15% a year. It is assumed that asset management will not add to the current backlog.
- Material and contract costs reduced by a nominal 3% initially reducing progressively through strategic procurement initiatives.
- Economic development actions, that include active strategies to maintain base population, for example as has been done successfully in one of the Shire villages where a new family is actively encouraged to settle down whenever a family unit leaves the village.

EXECUTIVE SUMMARY

Table 1: Fit for the Future benchmark results 2011 to 2014

	2010/11	2011/12	20112/13	2013/14	FftF result
Operating performance ratio	-5.40%	-3.98%	-6.25%	-5.21%	✗
Own source revenue	75.86%	56.97%	45.86%	44.31%	✗
Building & asset renewal ratio	57.22%	55.64%	40.01%	81.91%	✗
Infrastructure backlog ratio	19.39%	13.37%	14.86%	13.23%	✗
Asset maintenance ratio	81.57%	88.36%	94.03%	98.94%	✗
Debt service ratio	0.36%	0.26%	0.25%	0.20%	✓
Real operating expenditure	5.16	6.93	7.58	5.19	✓

The impact of suggested strategies and actions on the Fit for the Future measures for Urana Shire Council operating as a Rural Council is projected below:

Table 2A: Forward projections

	2013/14	2014/15	2015/16 Year 1	2016/17 Year 2	FftF result
Operating performance ratio	-5.21%	-6.56%	-4.23%	-3.11%	✗
Own source revenue	44.31%	51.41%	59.24%	67.16%	✓
Building & asset renewal ratio	81.91%	100.23%	131.60%	103.83%	✓
Infrastructure backlog ratio	13.23%	4.04%	2.61%	1.95%	✓
Asset maintenance ratio	98.94%	97.46%	98.60%	101.83%	✓
Debt service ratio	0.20%	0.37%	0.62%	0.97%	✓
Real operating expenditure	5.19	4.75	4.59	4.54	✓

Table 2B: Forward projections

	2017/18 Year 3	2018/19 Year 4	2019/20 Year 5	2020/21 Year 6	FftF result
Operating performance ratio	-1.51%	3.98%	8.96%	12.53%	✓
Own source revenue	70%	72%	73%	73%	✓
Building & asset renewal ratio	101%	101%	101%	101%	✓
Infrastructure backlog ratio	1.56%	1.32%	1.19%	1.07%	✓
Asset maintenance ratio	103%	104 %	105%	105%	✓
Debt service ratio	0.77%	0.54%	0.23%	0.22%	✓
Real operating expenditure	4.49	4.44	4.36	4.27	✓

EXECUTIVE SUMMARY

Table 2C: Forward projections

	2021/22 Year 7	2022/23 Year 8	2023/24 Year 9	2024/25 Year 10	FftF result
Operating performance ratio	14.90%	16.31%	17.64%	18.94%	✓
Own source revenue	73%	73%	73%	73%	✓
Building & asset renewal ratio	102%	102%	102%	103%	✓
Infrastructure backlog ratio	0.96%	0.86%	0.77%	0.70%	✓
Asset maintenance ratio	105%	105%	105%	106%	✓
Debt service ratio	0.21%	0.21%	0.19%	0.19%	✓
Real operating expenditure	4.22	4.16	4.11	4.08	✓

The impact of suggested actions is that Urana Shire Council satisfies the Fit for the Future benchmark measures:

Table 3: Summary of projected results vis à vis IPART assessment methodology

	IPART requirement for a rural council	Urana Shire Council meets in year
Operating performance ratio	Plan to meet in 10 years	4
Own source revenue	Plan to improve within 5 years and consider FAGs as operating income	Satisfied. Operating performance improves in all forward years.
Building and infrastructure asset renewal ratio	Meet or improve within 5 years	Satisfied from 2015/16
Infrastructure backlog ratio	Meet or improve within five years	Satisfied from 2015/16
Asset maintenance ratio	Meet within 5 years	Satisfied from 2016/17
Debt service ratio	Meet within 5 years	Continues to meet
Real operating expenditure per capita	Must demonstrate operational savings over five years	Satisfies over the projection period

CONCLUSION

Urana Shire Council has a strong case for being a stand-alone Rural Council operating within a Joint Organisation as recommended by the ILGRP. If adopted, Urana Shire Council will build further on their successful efforts to date in working with neighbouring councils. Embedding good asset management practice needs to be a priority for the council. Building on efforts to date in this area, Urana Council should examine and improve asset planning and information system as well as its asset management work practices.

An area of risk that requires monitoring is the development of the Riverina Joint Organisation as an effective JO as this holds the promise of accelerating implementation of some of the service improvement initiatives.