

Financial Sustainability Strategy 2019-2023



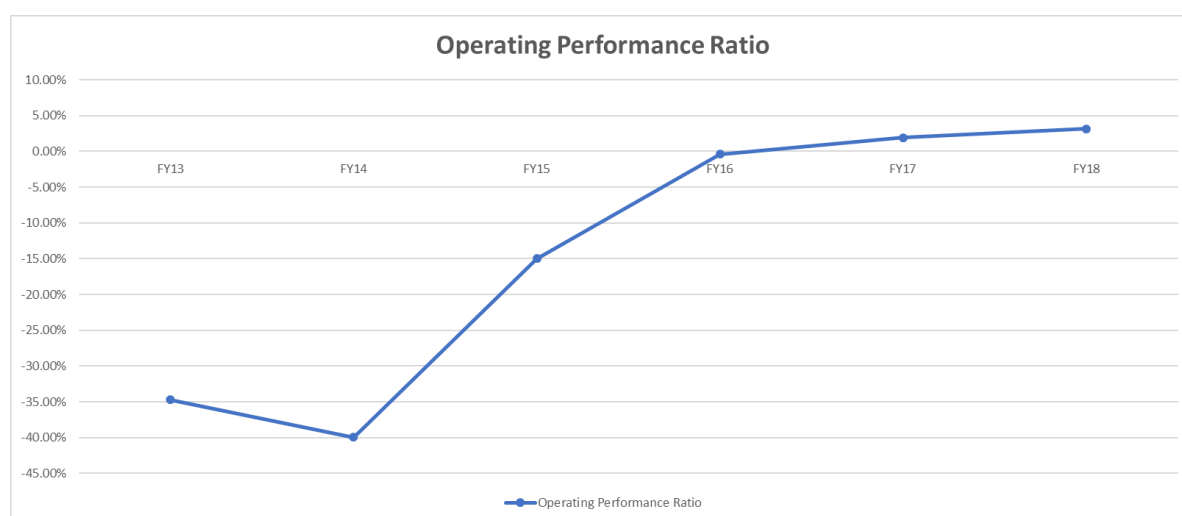
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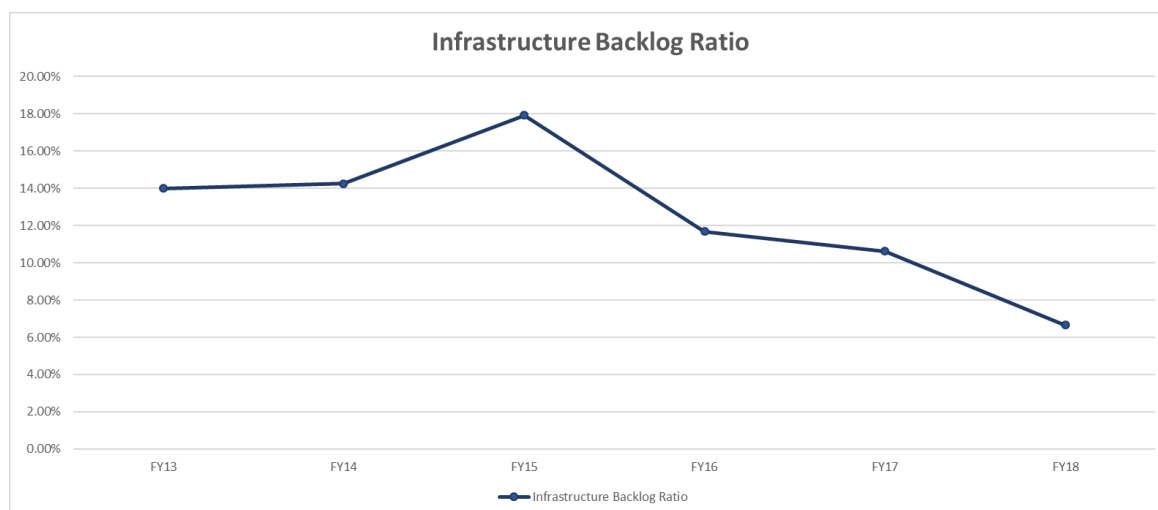
1.0 Introduction

In March 2013 NSW Treasury Corporation issued a report on the independent assessment of Kempsey Shire Council's financial capacity and its future sustainability. The report observed that Kempsey Shire Council was in a weak and deteriorating operating position. This observation was largely a factor of consecutive operating deficits that had been posted (when capital grants and contributions were excluded). Additionally, NSW Treasury Corporation noted that there had been an increase in the Infrastructure Backlog ratio and that the Asset Maintenance ratio was consistently below benchmark.

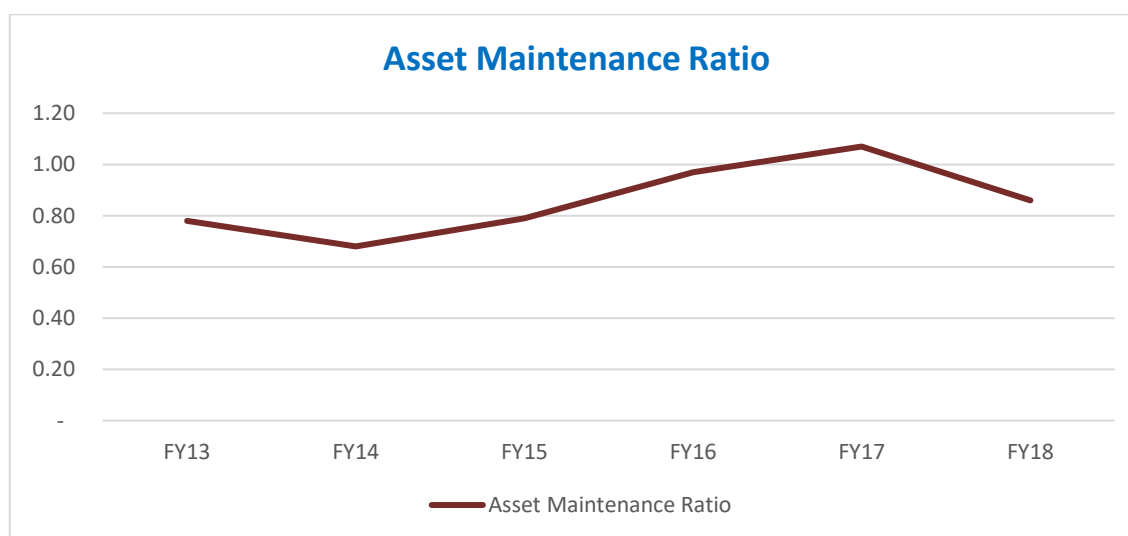
Since the time of the NSW Treasury Corporation report a 37.54% cumulative increase in rates, as agreed with the community, has been implemented. The rate rise was approved by IPART to sustain service levels to the community and to meet infrastructure maintenance costs (particularly the road network). This, along with some operating expenditure reductions, has resulted in improved operating performance. However, whilst the Operating Performance Ratio has improved in the 2016-17 and 2017-18 financial years, infrastructure measures continue to lag behind industry benchmarks and significant challenges still lay ahead.



Benchmark for Operating Performance Ratio is greater than or equal to 0%



Benchmark for Infrastructure Backlog Ratio is less than 2%



Benchmark for Asset Maintenance Ratio is greater than 1

Note: Operating Performance Ratio, Infrastructure Backlog Ratio & Asset Maintenance Ratio data is taken from Kempsey Shire Council's Annual Financial Statements FY13 to FY18.

The outlook of Council's Long Term Financial Plan highlights continued significant challenges ahead for Council and requires a holistic improvement program to be implemented in order for Council to achieve financial sustainability. The goals as set out in the current 2018 to 2028 LTFP are:

- Modest operating surpluses to insulate Council from unforeseen events across the three funds
- The provision of current service levels and where appropriate increased service levels to meet community expectations
- Reduce or eliminate the infrastructure backlog
- Maintain adequate levels of debt/equity funding
- A program of activity that see Council's assets appropriately leveraged for the long-term benefit of the Macleay Valley community
- Ensure appropriate levels of cash reserves are maintained for future projects and asset renewal management
- Ensure appropriate investment in the maintenance of assets

On a consolidated basis Operating Surplus have not been forecast within the current adopted 10-year LTFP. The LTFP forecasts accumulated Net Operating Deficits (excluding Capital Grants and Contributions) of \$29.97M from FY19 to FY28. This forecast result is consistent with actual historical financial results and represents current operating revenue and expenditure levels. The following demonstrates current projected performance across the key industry benchmarks:

Kempsey Shire Council

10 Year Financial Plan for the Years ending 30 June 2028

KEY PERFORMANCE INDICATORS - CONSOLIDATED

Scenario: 2018-19 to 2027-28 Proposed

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		Projected Years										
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	
		<div><div><div>●</div> Within green benchmark (green min and/or green max)</div><div><div>●</div> Within amber benchmark (amber min and/or amber max)</div><div><div>●</div> Not within benchmark (amber min and/or amber max)</div></div>					<div><div><div>—</div> Within green benchmark</div><div><div>↗</div> above green maximum and below amber maximum</div><div><div>↘</div> below green minimum and above amber minimum</div><div><div>↑</div> above amber maximum</div><div><div>↓</div> below amber minimum</div></div>					
Operating Performance Ratio 1)	Snapshot	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>↓</div></div>
	Actual Ratio	-8.92%	-6.56%	-4.48%	-3.66%	-2.87%	-1.84%	-2.85%	-2.92%	-2.93%	-3.52%	
Own Source Operating Revenue Ratio 1)	Snapshot	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>
	Actual Ratio	76.07%	78.02%	78.82%	84.39%	85.57%	85.78%	85.90%	85.96%	86.10%	86.23%	
Unrestricted Current Ratio	Snapshot	<div><div>●</div><div>↓</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>
	Actual Ratio	1.48	1.52	1.66	1.73	1.86	2.10	2.18	2.27	2.31	2.41	
Debt Service Cover Ratio 1)	Snapshot	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>↗</div></div>	<div><div>●</div><div>↗</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>↗</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>↗</div></div>	<div><div>●</div><div>↗</div></div>	<div><div>●</div><div>↗</div></div>	<div><div>●</div><div>—</div></div>
	Actual Ratio	2.88	2.83	2.92	2.73	2.77	2.78	2.72	2.64	2.54	2.35	
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	Snapshot	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>	<div><div>●</div><div>—</div></div>
	Actual Ratio	5.53%	5.55%	5.57%	5.58%	5.59%	5.61%	5.60%	5.60%	5.61%	5.63%	

This Financial Sustainability Strategy, 'The Strategy', has been developed to deliver a step change to the underpinning fundamentals of Council and deliver long term financial sustainability. Moving towards financial sustainability is achievable, however extensive consultation with the community will be required to define the community's expectations on delivery of best value services. This combined with an innovative approach to delivering better practices and excelling in financial management will all contribute towards Council achieving financial sustainability.

2.0 The Challenge Ahead

Council will face challenges on the road to financial sustainability which will require innovation, strong leadership, a continuous improvement culture coupled with strong community engagement to align future service to community expectations. Key challenges expected to be faced over this period include:

- building the internal systems & process capability and capacity to support a culture of innovation and excellence in financial management;
- developing and improving data quality to enable better data driven decision making;
- aligning service delivery to the expectations of the community and balance that against the community's capacity to pay;
- addressing Council's shortfall in funding for the renewal and maintenance of assets used to deliver services;
- continuing to drive productivity savings across all service areas to ensure continued value for money;
- understanding and managing the risks across the diverse range of services Council delivers to the community;
- finding new revenue streams whilst concurrently maximising current commercial operations, where possible, to reduce the rating burden on the community;
- ensuring debt funding is sustainable and ensures intergenerational equity is achieved;
- ensuring Council is well positioned to take advantage of future funding and grants opportunities presented by the NSW and Federal governments by having clear plans that drive short term decisions.

3.0 Policy Statement

The Policy Statement and supporting Financial Sustainability Strategy Roadmap are the catalyst for driving better practices, excelling in financial management and delivering best value to the community and should be viewed as an enabler that aims to provide financial sustainability, affordability, delivery and value for money over the medium and longer term. The key themes that drive this Policy Statement are:



To deliver on our key themes outlined above Council's has eight key program areas which will be the focus for the next five years:

1. **Service Delivery:** Engage with our community and agree on service expectations, service levels and affordability, whilst ensuring a strong focus on operational efficiency and continuous improvement so the services we deliver to the community are best value.
2. **Asset Management:** Understand our assets and ensure they are fit for purpose and deliver services to our community, divesting assets that are not required for the future to focus on core assets.
3. **Strategic Alignment:** Deliver a robust governance framework to ensure Council makes prudent and disciplined decisions regarding asset and service creation and renewal whilst also delivering alignment between LTFP, CSP & DP.
4. **Commercial Focus:** Build commercially viable operations that can deliver returns to Council to lessen the rating burden on the community.
5. **Information Management Systems:** Deliver better systems and processes that provide improved analytics across Council, aiding in better decision support.
6. **Procurement Capability:** Deliver a procurement strategy that supports sustainable service delivery, reduces 3rd party spend and improves supplier relationship management practices.
7. **Financially Accountable Culture:** Build capability and empower our staff to deliver financially sound outcomes whilst delivering quality services to our community.
8. **Debt Management:** Deliver a balanced debt policy position achieving intergenerational equity.

4.0 Objectives

The key objectives of Council's Financial Sustainability Strategy 2019-2023 are:

1. To provide Council and the Executive Leadership Team with a program that will deliver financial sustainability for Kempsey Shire Council.
2. To achieve financial sustainability for Council through:
 - the integration and alignment of service and financial outcomes through the Long Term Financial Plan, the Community Strategic Plan and Council Delivery Program;
 - enabling a culture of innovation, financial literacy and accountability to ensure decision making at every level is aligned to positive community outcomes;
 - working with the community on determining service level expectations and agreed associated funding sources; and
 - the development of better practices, enabling systems and processes.

Council's detailed Financial Sustainability Strategy Roadmap is attached. The Roadmap map is structured into 3 core themes of:

- Delivering Best Value To Our Community;
- Striving To Deliver Better Practices;
- Excellence In Financial Management.

Supporting our Themes are our 8 Programs, as outlined in the Policy Statement section of this Strategy, which identify the 28 key initiatives that are designed to deliver long term financial sustainability.

5.0 Financial Sustainability Roadmap

Refer attachment

Kempsey Shire Council: Financial Sustainability Strategy - Roadmap

November 2018

corporate evolution
advisory 

Roadmap Development Approach

The Financial Sustainability Strategy Roadmap has been developed from two (2) key inputs:

- Findings from interviews with key staff from across Kempsey Shire Council;
- Analysis of key historical financials, including:
 - Kempsey Shire Councils' financial statements for the 6 year period finishing 30/6/18;
 - Review of 2017 OLG Comparative Data for Group 4 Councils;
 - Review of 2017 OLG Comparative Data for North Coast Councils.

The review of the above form the basis of the Financial Sustainability Strategy Roadmap and will provide the platform for development of KSC's Financial Sustainability Strategy.



Financial Sustainability Strategy Roadmap

Key Financial Sustainability Strategy Themes

To deliver long term financial sustainability at Kempsey Shire Council the following key themes will be used to lead our change program:

We will strive for better practices across all Council operations, delivering the step change required to be a financially sustainable organisation that is valued by the community it serves.



We will deliver services that are valued by the community, at the cost, quality and frequency desired by the community.

By skilling and empowering our staff to lead we will deliver financially sound outcomes whilst delivering quality services to our community.

Financial Sustainability Strategy and Roadmap Overview



- The Financial Sustainability Strategy and accompanying Roadmap will guide KSC to holistic long term financial sustainability and should be considered a medium term program of work across General, Waste, Water & Sewer Funds.
- The Roadmap has been structured into Sustainability Themes, Programs, and then Initiatives.
- Each Initiative requires the development of an implementation plan which will include:
 - Initiative Sponsor;
 - Initiative Owner;
 - Individual actions that will deliver the Initiative;
 - Resources & budget required to deliver the Initiative; and
 - Timeframes for actions to be completed.
- Given the large scale of change identified to deliver Financial Sustainability no short term financial targets have been set. The main reason for this are the immature data sets that are available across key input areas (e.g. Asset data) which may drive unintended consequences when used in these circumstances.
- Benchmarks should therefore be developed as the change journey progresses and data sets are updated.

Summary of the 28 Initiatives by Theme/Program



Themes

Programs		Delivering Best Value To Our Community	Striving To Deliver Better Practices	Excellence In Financial Management
	Service Delivery	4	1	
	Asset Management	2	2	
	Strategic Alignment	2	3	
	Commercial Focus	1		
	Information Management Systems		3	
	Procurement Capability		1	
	Financially Accountable			8
	Debt Management			1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
1	Delivering Best Value To Our Community	Service Delivery	Undertake a review of services delivered by KSC to ensure services are aligned to community expectations.	A suite of services that are well defined, deliverable and aligned to community expectations.	Initiatives: 2, 3, 13, 14	Wave 2 & 3
2	Delivering Best Value To Our Community	Service Delivery	Undertake a review of service standards to ensure services are aligned to community expectations.	A suite of services that are well defined and delivered to an agreed service standard aligned to community expectations.	Initiatives: 1, 3, 13, 14	Wave 2 & 3
3	Delivering Best Value To Our Community	Service Delivery	Implement a rolling program of Service Delivery benchmarking to ensure ongoing services are delivered in accordance with best value principles.	Services are continually reviewed to ensure they deliver value to the community.	Initiatives: 1, 2, 13, 14	Wave 3
4	Delivering Best Value To Our Community	Service Delivery	Develop & implement a robust and scalable Project Management Framework to ensure the project delivery life cycle is optimized.	Project delivery is predictable and consistent in delivering on time, on budget and quality projects.		Wave 2

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
5	Delivering Best Value To Our Community	Asset Management	Undertake a strategic review of the current asset base to ensure assets are utilised & delivering value to the community. Where they are not meeting expectations divest/retire the asset.	KSC's asset base is fit for purpose and aligned to community service requirements. Non core assets are divested and any funds realised are reinvested into core assets.	Initiatives: 1, 2, 8, 13, 14	Wave 2
6	Delivering Best Value To Our Community	Asset Management	Review the prioritisation approach of asset renewals and new asset construction to ensure new asset construction decisions are fully funded on a life cycle basis and do not negatively impact the maintenance or replacement of the existing asset base.	New assets are costed on a life cycle basis allowing Council to fully evaluate the investment requirement over the asset life along with the impact on the maintenance & replacement of existing assets. New asset investment decisions also reference community service expectations.	Initiatives: 1, 2, 8, 9, 11, 13, 14, 16	Wave 2

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
7	Delivering Best Value To Our Community	Commercial Focus	Review KSC commercial operations, inclusive of Water & Sewer Operations, to ensure an appropriate return on investment is delivered to General Fund Operations, lessening the rating burden on the community.	KSC commercial entities operate on a commercial footing, providing financial returns to Council's General Fund to ease the rating burden on the community.	Initiatives: 1, 2, 13, 14	Wave 1
8	Delivering Best Value To Our Community	Strategic Alignment	Develop long term Master Plans, in conjunction with the community, for key service areas or asset bases to guide decision making processes.	Key asset and service areas have clear long term master plans in place that guide short to medium term decision making, project prioritisation and delivery.	Initiatives: 1, 2, 13, 14	Wave 2
9	Delivering Best Value To Our Community	Strategic Alignment	Develop rolling program of review and refinement of Developer Contribution Plans to ensure future development pays for growth related infrastructure.	Developer Contribution Plans are in place, up to date and balance the future costs of asset provision between the existing and future populations.	Initiatives: 1, 2, 8, 13, 14	Wave 2

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
10	Striving To Deliver Better Practices	Information Management Systems	Identify & implement a new Financial System that supports the future state management requirements of the organisation.	KSC financial management system enables best practice financial management, accountability and reduces non value add activities.		Wave 1
11	Striving To Deliver Better Practices	Information Management Systems	Identify & implement a new Asset Management System that supports the future state management requirements of the organisation.	KSC asset management system enables best practice asset management, enabling the asset base to deliver long term value to the community.	Initiatives: 13, 14	Wave 1
12	Striving To Deliver Better Practices	Information Management Systems	Identify & implement a Corporate Performance Management System that supports the future state management information, performance monitoring & reporting requirements of the organisation.	KSC corporate performance management system enables best practice performance management, whilst also enabling Council & the community to monitor CSP, LTFP performance, along with DP and OP delivery.		Wave 1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
13	Striving To Deliver Better Practices	Asset Management	Develop an end to end asset management capability, including people, processes and systems, to support the Council in maximizing the value & life of it's asset base.	Better asset management practices have led to improved financial performance, better asset decision making, a decrease in risk, an improvement in service outcomes, and therefore maximising the assets contribution to the community.	Initiatives: 1, 2	Wave 1
14	Striving To Deliver Better Practices	Asset Management	Implement strong Asset Management Planning processes to drive maintenance planning, works program development & program prioritisation.	Asset management planning has reduced costly reactive maintenance, improved works program development, prioritisation and delivery, resulting in improved Value For Money.	Initiatives: 1, 12, 13	Wave 1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
15	Striving To Deliver Better Practices	Strategic Alignment	Develop & implement an organisational wide business planning approach to drive ongoing review, prioritisation & improvement across all council services.	Annual business planning provides a systematic review of operations, a consistent link between delivery and budget setting/prioritisation along with agreed target setting across the management team.		Wave 1
16	Striving To Deliver Better Practices	Strategic Alignment	Implement the development of formal Business Cases to allow review & prioritization of asset or service related investments.	Formal business cases are in use for key investment decisions across both new services and asset construction, identifying benefits, whole of life costs and performance metrics to allow prioritisation by Council.	Initiatives: 15	Wave 1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
17	Striving To Deliver Better Practices	Strategic Alignment	Review the current approach to the development of the CSP/DP/OP to ensure better linkages between the LTFP & yearly budget development	Clear linkages are established between operating unit business plans & budgets through to organisational planning documents including the CSP & LTFP.	Initiatives: 1, 2, 13, 14, 15	Wave 1
18	Striving To Deliver Better Practices	Service Delivery	Develop a productivity baseline and performance targets to drive continued improvement in delivery.	Productivity is consistently measured and monitored ensuring services are delivered in the most efficient manner.	Initiatives: 1, 2, 3, 12, 13, 14, 15	Wave 3
19	Striving To Deliver Better Practices	Procurement Capability	Develop a procurement strategy to support sustainable service delivery, reduction in 3 rd party costs and improved supplier relationships.	Procurement is a key business partner and is delivering improved supplier relationship management whilst also driving down 3 rd party spend.		Wave 1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
20	Excellence In Financial Management	Financially Accountable Culture	Undertake financial awareness training across the organisation to ensure staff are financially literate and understand how they contribute to the financial success of the Council.	KSC staff are financially aware, have commercial acumen and are able to make decisions in the best interests of the long term financial health of KSC.		Wave 1
21	Excellence In Financial Management	Financially Accountable Culture	Empower staff to have greater involvement in the budget setting & day to day management, using section Business Plans & AMPs to guide the budget setting process.	KSC staff are leading the budget setting process from individual unit business plans which are informed by Asset Management Plans and community expectations.	Initiatives: 1, 2, 13, 14, 15	Wave 1
22	Excellence In Financial Management	Financially Accountable Culture	Continue to develop the business partnering role of finance, equipping budget managers with tools & information to effectively discharge their budget management responsibilities.	The KSC Finance team is seen as a key business partner and is supporting and guiding operational units with analytics and decision support information.		Wave 1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
23	Excellence In Financial Management	Financially Accountable Culture	Use project delivery planning to forecast budget and cashflow requirements in the financial planning processes to ensure alignment between delivery & cashflow/budget.	Project budgets are informed by detailed project planning that articulates the phased delivery and therefore cashflow requirements, allowing project budgets to be phased appropriately, reducing carry overs between financial years.	Initiatives: 4	Wave 1
24	Excellence In Financial Management	Financially Accountable Culture	Implement short term measures to identify waste, cost reduction opportunities or business improvement activities to ease short term financial pressure	Quick win opportunities are identified and realised early to demonstrate early success and assist in funding future improvement programs.	Initiatives: 25	Wave 1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
25	Excellence In Financial Management	Financially Accountable Culture	Develop and implement an innovation portal to allow capture and refinement of business improvement initiatives from staff across the organisation, inclusive of cost reduction opportunities.	Innovation is seen as a key attribute across KSC, staff are empowered to identify and nominate improvement opportunities and the improvements are delivering value across the organisation.	Initiatives: 24	Wave 1
26	Excellence In Financial Management	Financially Accountable Culture	Review and refine the current overhead allocation methodology to ensure overhead cost apportionment is accurate & reflective of the true cost to serve of operating units.	Overhead distribution is reflective of the consumption of support services allowing true service costs to be identified and included in community engagement activities.	Initiatives: 1, 2	Wave 1

Financial Sustainability Roadmap



Initiative Number	Theme	Program	Initiative	Outcome	Interdependency	Wave
27	Excellence In Financial Management	Financially Accountable Culture	Review and refine the internally restricted assets currently held to ensure they are reflective of future requirements.	Internally restricted assets have a clear purpose and rationale for restriction.		Wave 1
28	Excellence In Financial Management	Debt Management	Develop a Debt Policy outlining how debt will be used, linking intergenerational equity and the consumption of assets across the useful life.	The use of debt is understood and accepted by Council and the community as a way of funding long term assets that are consumed by current and future residents, thereby balancing asset costs across generations.	Initiatives: 1, 2, 13, 14	Wave 2 & 3