attachment 1

to

item 211

Fit for the Future Revised Council Improvement Proposal: Abridged Version

date of meeting: 11 October 2016

location: council chambers

time: 6:30 p.m.

Hawkesbury City Council

Fit for the Future

Revised Council Improvement Proposal

Abridged Version

Office of Local Government

Council name: Hawkesbury City Council

Date of Council resolution endorsing this submission: 26 July 2016

1.1 Executive Summary

Provide a summary (up to 500 words) of the key points of your Proposal including current performance, the issues facing your council and your planned improvement strategies and outcomes.

(This revised Fit For The Future Proposal is being submitted for reassessment in accordance with the *Fit for the Future Financial Criteria Reassessment Guidelines* issued by the Office of Local Government (OLG) in May 2016. Hawkesbury City Council formally advised the OLG on 13 May 2016 of its intention to nominate for reassessment and to participate in the reassessment process. This revised proposal has been submitted in conjunction with the required documentation as listed on page 7 of the Reassessment Guidelines).

Hawkesbury City Council's performance, as measured against the Fit for the Future (FFTF) criteria, is primarily shaped by its financial capacity to fund the renewal of its long-lived assets. Meeting the costs associated with the consumption of these assets is the critical determinant impacting on Council's future financial sustainability.

Council is currently achieving four of the seven Fit for the Future (FFTF) benchmarks (Own Source Revenue Ratio, Infrastructure Backlog Ratio, Debt Service Ratio and Real Operating Expenditure). Its current trajectory in relation to two of the three remaining FFTF benchmarks, Building & Infrastructure Asset Renewal Ratio and Asset Maintenance Ratio, is in line with the required improvement trend identified in the *IPART Assessment Methodology*. The capacity to fully fund the cost of maintaining and renewing infrastructure is the primary factor impacting on the complete achievement of these two asset-related benchmarks.

Council's original FFTF Proposal was assessed as 'not fit' by IPART in that it did not meet the required Operating Performance Ratio (OPR) by 2019/2020. Council's original FFTF Proposal projected that Council would achieve the OPR benchmark by 2020/2021. To meet the OPR benchmark by 2019/2020 will require Council to reduce its projected operating result for the three financial years leading up to 2019/2020 by an average of $736,334 in each of these years ($1.4M in 2017/2018, $505,000 in

2018/2019 and $351,000 in 2019/2020). In submitting its FFTF proposal, Council was aware of the OPR shortfall. It had previously argued, in a submission to IPART, that as a peri-urban council it exhibited the rural council characteristics identified by IPART as requiring a longer time frame to achieve the FFTF benchmarks than those applying to metropolitan councils. In its FFTF proposal, Council put the view that as its OPR position was wholly related to funding the imputed cost of the depreciation of its assets, nevertheless it had met the required benchmarks for funding of the future cash cost of asset maintenance and renewal. Council argued that IPART should give consideration to the overall trajectory of Council's performance against the aggregated asset-related FFTF benchmarks which clearly indicated that it was financially sustainable. IPART did not accept this view.

Council's revised FFTF Proposal is therefore primarily directed at addressing this OPR shortfall, while also consolidating its capacity to meet in full the asset related FFTF benchmarks by 2019/2020.

Council's FFTF challenge reflects its geography and demography. It is a peri-urban council on the north-western periphery of the Metropolitan Region and is the largest local government area within Sydney. It straddles the divide between urban metropolitan councils to its east and rural councils to its west. While the south east corner of the LGA is predominantly urban, the remainder of LGA forms a much larger rural hinterland. In comparison with adjoining metropolitan councils, Council has a relatively smaller, but growing, population of 66,000 persons spread over an area of 2,793 square kilometres. As a result, it is required to maintain a large asset holding serving a dispersed population.

To address this situation, Council's revised FFTF Proposal incorporates an integrated mix of 20 strategies. The main elements of which include a rigorous expenditure reduction program to achieve operating efficiencies, and a proposal for a $25M Infrastructure Renewal borrowings program targeting road renewal and the delivery of an enhanced program of asset maintenance and renewal. This program is to be funded by increased revenues derived primarily from a proposed special rate variation (SRV) to be determined following consultation with the community. This consultation process has commenced and is anticipated to be completed by November 2016. The FFTF strategies are also aimed at consolidating strategic capacity – primarily through a formal regional partnership with Blue Mountains and Penrith Councils.

The implementation of the actions outlined in Council's revised FFTF Proposal will see Council direct substantial additional funding to infrastructure renewal. By 2017/2018 it will meet the Building & Asset Renewal Ratio and Asset Maintenance Ratios while continuing to meet the Own Source Revenue Ratio, Infrastructure Backlog Ratio, Debt Service Ratio and Real Operating Expenditure benchmarks. The FFTF Proposal will also see Council meet the Operating Performance Ratio with a break even operating result achieved by 2019/2020.

2.3 Performance against the Fit for the Future benchmarks

Sustainability

Measure/ Benchmark	2013 / 2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	**-0.125**	**No**	**-0.106**	**No**
Own Source Revenue Ratio (Greater than 60% average over 3 years)	**65.7%**	**Yes**	**72.0%**	**Yes**
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	**76.9%**	**No**	**98.2%**	**No**

If the Fit for the Future benchmarks are not being achieved, please indicate why.

For example, historical constraints/context, one-off adjustments/factors, council policies and trade-offs between criteria.

Council is currently achieving one of three Sustainability benchmarks. Council's negative operating performance ratio (OPR) is a function of increasing annual depreciation charges not being matched by a sufficient level of revenue. In 2013/2014, annual depreciation charges accounted for 20.6% of Council's operating expenditures ($12.9M). Based on Council's current financial position, revenue forecasts and projected increases in cost indices above rate pegging, the OPR is projected to improve by

2016/2017 but is still not projected to achieve the required FFTF benchmark over the longer term. Any substantial and sustained improvement in Council's OPR will be reliant on strategies to increase revenues which can be directed to asset renewal.

Council has a stable and sound stream of own source revenue (OSR). The projected increase in the Own Source Revenue Ratio to 2016/2017 reflects the exclusion of the majority of Council's non-capital grant income from the operating revenue figure used to calculate the OPR.

Council's performance against the asset renewal benchmark is projected to increase (from an average of 76.9% over the past three years to an average of 98.2% over the three years to 2016/2017). Council's performance against this benchmark fluctuates from year to year which reflects the scope of asset renewals programmed in any one year. The improvement in the asset renewal benchmark to 2016/2017 can be partly attributed to a one-off increase in asset renewals funded through developer contributions and works- in- kind. From 2020/2021 the improvement in the asset renewal benchmark reverses and is projected to decline due to the recalibration of the funding allocation between asset maintenance and asset renewal as outlined in the *Infrastructure and Service Management* section and the ageing of a number of assets which are projected to reach their renewal thresholds. This approach will ensure that over the longer term, earlier maintenance intervention will extend asset life and reduce renewal requirements. However, funding strategies will be required to address the deterioration of assets over the medium term.

In broad terms, council management has adopted a practice of presenting a balanced operating budget (excluding depreciation) to Council. Actual expenditure on asset renewal is determined based on the funds that are nominally available after the cost of maintaining existing service levels are inputted into the draft financial estimates. Council has a rigorous budget process where funding requests for each budget line item are required to be substantiated by managers and each item is then reviewed and verified. As part of this process, senior management review all operations to identify strategies to contain rising costs and/or improving efficiencies to optimise the spend on asset renewal. This has proven to be a successful approach, within a context of constrained revenue, which has seen Council increase its expenditure on asset renewal over the last three financial years. Despite this absolute increase in asset renewal expenditure, the increased amount will not been sufficient to meet the FFTF Benchmark in 2019/2020.

2.3 Performance against the Fit for the Future benchmarks

Infrastructure and service management				
Measure/ Benchmark	**2013 /2014 performance**	**Achieves FFTF benchmark?**	**Forecast 2016 / 2017 performance**	**Achieves FFTF benchmark?**
Infrastructure Backlog Ratio (Less than 2%)	**14.1%**	**No**	**1.14%**	**Yes**
Asset Maintenance Ratio (Greater than 100% average over 3 years)	**58.4%**	**No**	**97.8%**	**No**
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	**0.47%**	**Yes**	**1.2%**	**Yes**

If the Fit for the Future benchmarks are not being achieved, please indicate why.

In 2013/2014, Council was achieving one of three Infrastructure and Service Management Benchmarks (Debt Service Ratio). In 2015, Council commissioned an infrastructure assessment report to move towards a more auditable Special Schedule 7 based on a risk based asset management approach to more accurately assess and verify infrastructure backlog values. Prior to 2015, Council's infrastructure backlog was based on the estimated cost of bringing assets to a satisfactory condition (BTS), with the BTS value determined by Managers based on a technical assessment of asset condition. The revised risk assessment approach has identified the high risk infrastructure backlog component within the total required asset renewal works. Consequently, while the quantum of asset renewal requirement has remained the same, the high risk infrastructure backlog value component of this requirement has been revised downwards to 2.95% in 2014/2015, and is projected to be 1.1% by 2016/2017.

The risk based assessment modeling commissioned by Council has also resulted in a revision to Council's projected performance against the Asset Maintenance Ratio. Council has traditionally calculated its asset maintenance requirements based on technical condition assessments to identify the funds required to bring assets to optimal condition under ideal intervention methods. The risk based assessment management approach recommended through the external review is based on the assumption that Council has been allocating close to the required amount on the maintenance of its assets to ensure that the day-to-day deterioration of these assets does not pose a public safety risk – as evidenced by the everyday performance of these assets. The revised risk based assessment methodology has also recalibrated the relationship between asset maintenance and asset renewal with the recommendation that Council must fund asset maintenance to the required level to maintain public safety. Within this context, the report has recommended that Council should focus on funding asset maintenance, with the balance of available asset funding directed to asset renewal. This approach accounts for the improved performance against the Asset Maintenance Ratio to 2016/2017 and a projected decline in the Building and Asset Renewal Ratio post 2020/2021 (as flagged in the previous section).

Council's debt service result meets the benchmark as a result of its low loan borrowings. The relatively low level of loan borrowings reflects Council's current financial position as assessed by T-Corp which has placed a $6M cap on loan borrowings - Council is currently servicing a LIRS loan of $5.26M and has limited financial capacity to expand its loan borrowings without additional revenue.

2.3 Performance against the Fit for the Future benchmarks

Efficiency

Measure/ benchmark	2013 /2014 performance	Achieves FFTF benchmark?	Forecast 2016 / 2017 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	**Decreasing**	**Yes**	**Decreasing**	**Yes**

If the Fit for the Future benchmarks are not being achieved, please indicate why.

Council is currently achieving the Efficiency benchmark. Council has been able to contain real operating expenditure per-capita through careful budget management, although this has been achieved at the expense of its capacity to fully fund the cost of maintaining and renewing infrastructure. While, this trade-off has enabled Council to maintain service levels, and where required, absorb new functions and responsibilities, it has contributed to a growing infrastructure renewal requirement.

3. How will your council become/remain Fit for the Future?

3.1 Sustainability

Summarise your council's key strategies to improve performance against the Sustainability benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

The primary factor impacting on Council's sustainability, and in particular its operating performance, is its current capacity to fully fund the imputed cost of annual depreciation. Council's current financial settings prevent it from generating the income required to support existing service levels as well as funding the maintenance and long term renewal of its infrastructure. Accordingly, Council's FFTF Proposal is targeted towards directing substantial additional funding to infrastructure renewal and maintenance so that over the medium to long term it is in a position to fully fund its annual depreciation expense.

To improve its performance against the Sustainability benchmarks, Council will be implementing a broad combination of strategies that by 2019/2020 will;

- deliver an efficiency divided of 9.9% in real terms (taking into account CPI) which is equivalent to a $6.9M reduction in total operating expenses;
- raise at least $1.5M in one-off revenue through the sale of properties; and
- increase own-source operating revenue by $7.5M to be primarily directed to asset renewal.

In total, these strategies (in combination with Council's other FFTF strategies) will;

- improve Council's Operating Performance Ratio with a break even operating position to be reached in 2019/2020;
- maintain Council's Own Source Revenue Ratio above the benchmark; and
- meet the Building and Asset Renewal Ratio by 2017/2018 and sustain this performance going forward.

Explain the key assumptions that underpin your strategies and expected outcomes.

For example the key assumptions that drive financial performance including the use of SRVs, growth in rates, wage increases, Financial Assistance or other operating grants, depreciation, and other essential or major expense or revenue items.

The modeling for the projected internal savings to be achieved through operational efficiencies and improved property returns and/or property sales is based on the following assumptions;

- the maintenance of existing service levels with projected annual award increases of 2.6%;
- an annual reduction in real terms in non- employee related operating expenditures within selected Council operations commencing at 1% in 2016/2017 and scaling up to 2.5% from 2017/2018 to achieve a total of 8.5% in savings in non-employee related operating expenditures by 2019/2020;
- the identification of other actual or projected savings and efficiency targets(not factored into the original FFTF Proposal) through the leasing of vacant Council properties ($234K); a reduction in insurance costs ($37K); energy efficiency savings ($336K); a reduction in staffing levels through adoption of new technology ($21`0K); and a 0.8% reduction in back-office and corporate overhead costs ($114K) to be achieved through aggregated service arrangements brokered through Regional Strategic Alliance.
- a preliminary review of Council's property portfolio which has identified potential under-performing and surplus properties, this would have to be verified through external review and would be subject to Council and statutory approval.

The modeling for the projected revenue increases to be achieved through rating variations, dividend payments and the review of pricing structures is based on the following assumptions;

- the inclusion of only reasonably assured, ongoing operating grants within the overall revenue projections and the maintenance of Financial Assistance Grants at current levels;
- the completion of a community engagement strategy (which commenced in July 2016) aimed at initially gathering the views and expectations of residents regarding service levels and canvassing their priorities for future investment. The outcome of this Stage 1 service level review consultation, will inform stage 2 of the community engagement strategy (to commence in October 2016) which will focus on the identification of a resourcing strategy to the fund required service levels. To facilitate

consultation in relation to possible options for a resourcing strategy, the revised FFTF Proposal includes a notional Special Rate Variation for a cumulative rating increase of up to 14.49% over 2 years (excluding the rate peg amount). The final mix of SRV and/or service level reductions required to fund the resourcing strategy will be determined following the completion of the community consultation). If endorsed by Council, and approved by IPART, the SRV and/or service reduction/asset disposal strategy would commence in 2017/2018;

- the inclusion within any SRV application, for a proposal for a Special Rate to be applied to the projected 1,980 rateable properties within the Redbank North Richmond and Jacaranda Ponds, Glossodia residential developments. If approved by IPART the Special Rate would be applied from 2019/2020. The amount of the Special Rate is based on the estimated annual cost of maintaining the enhanced heritage open space and riparian corridors within these developments;
- levying of an annual $25 stormwater management charge against the estimated 25,129 residential and equivalent business properties (based on the applicable land area for business properties) connected to Council's stormwater drainage network. To be applied from 2018/2019
- annual dividend payments based on a 6% to 12% rate of return on the value of assets within Council's Waste Management Facility commencing in 2015/2016. No dividend payment has been inputted for Councils Sewer Schemes but it is anticipated this would commence post 2019/2020.
- a staged process for achieving, by 2019/2020, an increased cost recovery pricing path for selected 'non-core' business units (cemeteries, companion animal shelter, pools, Upper Colo reserve) based on a review of pricing structures and service models.

3.1 Sustainability

Outline your strategies and outcomes in the table below.

3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1. Increased operating efficiencies to improve Council's capacity to meet operating expenditure requirements	1.1 Review of Road Operations. An annual 1% efficiency target applied to Councils yearly $14M spend on road works operating costs (excluding ordinary wages and overheads). Will achieve $150K efficiency savings per year for 4 years to reach the projected target of $600K by 2019/2020.	External Consultant engaged June 2016 to review depot & workshop operations, and plant utilisation. Outcome of review to identify time frames and strategies to achieve savings for reinvestment in road renewal works.	Reduction in per-unit cost of road operations to achieve annual internal savings of $600K by 2019/2020 for reinvestment in road renewal works.	Improve: • Operating Performance Ratio • Infrastructure Renewal Ratio • Per-capita Operating Expenditure • Reduce Infrastructure Backlog
	1.2 Review of Service Delivery Models. An annual 1% to 2.5% efficiency target applied to Corporate Support and Discretionary Services (excluding employee costs and overheads). Will achieve average $715K in efficiency savings per year for 4 years to reach projected target of $2.5M by 2019/2020.	The milestones for this strategy will be driven by the established time frames for the preparation of annual financial estimates.	8.5% reduction in real terms on non-employee operating costs for targeted services to achieve annual savings of $918K by 2019/2020 for reinvestment in asset renewal works.	Improve: • Operating Performance Ratio • Infrastructure Renewal Ratio • Per-capita Operating Expenditure • Reduce Infrastructure Backlog

	1.3 <u>Review of Plant/Fleet Management</u>. Review of plant/fleet vehicles and accessories, ownership and maintenance models to achieve annual saving on net cost of operating leaseback fleet. $329K in net savings to be achieved by 2019/2020 to be directed to capital renewal.	Modelling of fleet leaseback options has been completed. Transition from outright purchase to leasing of fleet to commence 2017/2018.	Net annual savings of $329K achieved from 2017/2018 - reinvested in asset renewal works. Projected to increase operating costs by $198K offset by $527K reduction in capital expenditure	Improve: • Infrastructure Renewal Ratio • Reduce Infrastructure Backlog Negative impact: • Operating Performance Ratio • Per-capita Operating Exp. (negative impacts offset by capital expenditure savings)
	1.4 <u>Property and Asset Review</u>. Rate of return review to identify non-performing and surplus properties for sale or disposal. Conservatively projected to raise $1.5M by 2019/2020 in one-off sale proceeds. Depreciation offsets and leasing of vacant properties to increase recurrent income by $234K by 2019/2020.	Preliminary review of property portfolio completed. $492K raised from property sales in 2015/2016. Further actions to commence in 2016/2017.	Identification of under-performing and surplus properties to realise $1.5m in asset sales by 2019/20 and $219K in additional recurrent income. Sale proceeds to establish reserve for future strategic property investments.	Improve: • Operating Performance Ratio • Infrastructure Renewal Ratio • Reduce Infrastructure Backlog
	1.5 <u>Review of Insurance Coverage and Self-Insurer Model</u>. Review of the current self-insurer model to enable comparison with alternate funding and provisioning arrangements for workers compensation and other insurances. Review to include assessment of impact of self-insurer requirements on procurement costs and staff productivity.	External consultant to be engaged 2016/2017.	While financial savings and other efficiencies yet to be determined a modest savings target of $36,531 is projected to be achieved by 2019/2020 through operational review.	Improve: • Operating Performance Ratio • Per-capita Operating Expenditure

2. Increase Operating Revenues to meet the costs of maintaining and renewing assets and delivering services	2.1 Resourcing Strategy (including Special Rate Variation). Two stage community engagement process to commence July 2016. Outcome of Stage 1 Service Level Review to be reported to Council to confirm resourcing strategy options (including provision for SRV increases) for Stage 2 community consultation to commence October 2016. Inclusion of notional SRV of 14.49% (excluding rate peg) over two years commencing in 2017/2018 to provide indicative benchmark for additional investment required to fund annual asset renewal and maintenance shortfall. Notional SRV to generate additional rating revenue by 2019/2020 meet loan repayments for $25M infrastructure borrowings program, with balance of revenue directed to asset renewal and maintenance and budget repair.	Timing and process driven by outcome of community engagement (CE) process & IPART requirements. CE Strategy commenced in July 2016. Outcomes to be reported to Council by Nov 2016 to determine whether to proceed with option of advising IPART of intention to lodge SRV (advice required by IPART by Dec 2016). Draft SRV proposal reported to Council for possible submission to IPART by Feb 2017.	Income raised through SRV will be used to fund accelerated 5 year $25M road works program to 2021/2022, and over the longer term an enhanced infrastructure renewal program targeting long-lived assets and directed at stabilising infrastructure renewal requirement.	Improve: • Operating Performance Ratio • Own Source Revenue Ratio • Infrastructure Renewal Ratio • Asset Maintenance Ratio • Reduce Infrastructure Backlog • Increase Debt Service Ratio
	2.2 Stormwater Management Charge (SMC). $25 annual levy for stormwater management services against properties connected to the stormwater drainage network - commencing in 2018/19. Projected to raise $636K in additional annual revenue to fund required level of maintenance & renewal of stormwater assets.	Timing and process to be driven by Office of Local Government (OLG) guidelines for the levying, calculation and use of stormwater management charges. Contingent on Council Resolution.	Income raised through SMC will be used to fund an enhanced program of stormwater asset maintenance & renewal program in accordance with OLG guidelines.	Improve: • Operating Performance Ratio • Own Source Revenue Ratio • Infrastructure Renewal Ratio • Asset Maintenance Ratio • Reduce Infrastructure Backlog

	2.3 Special Rate for New Residential Development. New developments at Redbank Nth Richmond(1400 lots) and Jacaranda Ponds Glossodia (580 lots) will generate additional asset maintenance requirements within these developments which will not covered by ordinary rating revenue due to the particular characteristics of the environmental and heritage assets within these developments. A Special Rate will be applied from 2019/20 to these new developments to generate the additional revenue required to meet these additional costs.	Timing and process driven by IPART requirements (as per 2.1 above). The application for a special rate for new residential developments will be included in Council's application to IPART for a SRV.	Special rate based on estimated costs of additional maintenance works. The combined annual amount of $416K per year is based on a rate per property of $208 for Redbank and $215 for Jacaranda Ponds. To be applied from 2019/2020.	Improve: • Operating Performance Ratio • Own Source Revenue Ratio • Asset Maintenance Ratio (beyond 2019/2020)
	2.4 Review of Waste Management and Sewer Business Units. Council has assets invested in a Waste Management Facility and Sewerage Schemes. A rate of return based on industry benchmarks on the value of these assets is to be applied to these business units. Reviews of the operations of the Waste Management Facility and Sewerage Schemes have recently been completed by external consultants.	Dividend payment for Waste Management Facility commenced 2015/2016. Dividend payment from Sewerage Scheme to be determined pending compliance with Best Practice guidelines and IPART requirements.	Initial payment of a $309K dividend from Waste Management Facility achieved in 2015/2016 based on 6% rate of return. Increased to 12% from 2016/17 to increase annual dividend payment to $621K. No amount has been included for Sewerage Scheme for the period ending 2019/2020.	Improve: • Operating Performance Ratio • Own Source Revenue Ratio • Infrastructure Renewal Ratio

	2.5 Review of Pricing Structures for Business Units. A review of the operations of income generating 'non-core' business units – e.g. Cemeteries, Companion Animal Shelter, Richmond Pool, Upper Colo Reserve. The purpose of the review is to establish the true operating costs of these business units to so that their pricing structures could be geared to achieve at least a break-even operating position over the medium term.	Financial modelling to establish turnaround targets have been completed. Will be achieved through a combination of pricing structures and review of service models. Staged process for achieving targets by 2019/2020 will be implemented from 2016/2017.	Savings of $118,262 projected to be achieved by 2016/2017 scaling up to projected annual savings of $155K by 2019/2020. Savings to be reinvested in asset renewal.	Improve: • Operating Performance Ratio • Infrastructure Renewal Ratio • Reduce Infrastructure Backlog
	2.6 Lobbying for increased regional roads funding. Council currently receives RMS funding as a contribution to the costs of maintaining regional road network. It is proposed that Council lobby government and RMS to have additional roads placed on the regional roads network (Yarramundi Lane, Francis St) and seek contribution to costs of maintaining these roads.	Resolution of Council and preparation of Ministerial correspondence and/or representations.	Unable to be calculated at this time. ($2.9M in annual capital grants has been factored into FFTF modelling based on historical grant receipts)	Improve: • Infrastructure Renewal Ratio • Reduce Infrastructure Backlog

3.2 Infrastructure and Service Management

Summarise your council's key strategies to improve performance against the Infrastructure and service management benchmarks in the 2016-20 period, including the outcomes you expect to achieve.

The primary factor impacting on Council's performance in relation to infrastructure and service management is the size of its infrastructure renewal requirement which, in turn, is the function of a history of under-investment in asset maintenance and renewal. Accordingly, Council's FFTF Proposal aims to redress this history of under-investment in infrastructure renewal. It will do this by directing substantial additional resources to infrastructure renewal combined with a loan borrowings program to accelerate the staged reduction of its infrastructure renewal requirement to a more sustainable level.

To improve its performance against the Infrastructure and Service Management benchmarks, Council will be implementing strategies that by 2019/2020 will;

- finalise a risk and evidence based assessment of infrastructure costs and liabilities to provide a sound platform for long term financial forecasting;
- recalibrate its capital work programs to direct additional annual funding to infrastructure renewal; and
- complete a $25M accelerated road, building and parks renewal and works program to be funded through loan borrowings.

In total, these strategies (in combination with Council's other FFTF strategies) will;

- reduce Council's infrastructure backlog with the required FFTF benchmark achieved in 2015/2016 and maintained in line with the benchmark going forward.;
- improve Council's Asset Maintenance Ratio to 105.4% by 2019/2020 and sustain this level going forward; and
- result in a small increase in the Debt Service Ratio, but still remain within the FFTF Benchmark.

Explain the key assumptions that underpin your strategies and expected outcomes.

The modeling for the main elements of the infrastructure renewal program to reduce and maintain the stability of Council's infrastructure renewal requirement is based on the following assumptions;

- a loan borrowings program which will progressively draw down a total of $25M over a period of 5 years, with a loan term of 15 years for each loan (at an assumed 4% interest), this borrowing strategy will fund an accelerated asset renewal and works program over a period of 5 years, with loan and interest repayment spread over 15 years;
- the revenue required to fund the loan borrowings program is to be derived from the proposed Special Rate Variation and/or a service reduction/asset disposal strategy (outlined previously) with the balance of revenue after meeting loan and interest repayments directed to asset maintenance and budget repair which is projected to increase from 2020/2021 onwards (as the accelerated $25M asset renewal program winds down);
- the projected annual increase of $2.7M for asset renewal be achieved through a recalibrated capital works program based on the timing and costing of works within Developer Contributions Plan and Voluntary Planning Agreements for the Redbank, North Richmond and Jacaranda Ponds, Glossodia residential developments which are to delivered from 2015/2016 onwards (but exclude additional renewal works to be contained in the S94 Plans for the Kurmond/Kurrajong Investigation Area, and the Vineyard Precinct.
- the enhanced program of asset renewal will be a supplemented by an annual $230K child care centre sinking fund based on recovering 50% of the annual depreciation charges for these centres - to commence in 2017/2018 with funds raised to be reinvested in child care centre renewal.

In total, the combined impact of these measures, together with the measures outlined previously, will enable Council to invest an additional $40M over four years in the renewal of assets. This additional investment will address and stabilise Council's infrastructure backlog to the require d FFTF Benchmark of less than 2% of asset write down value. It will also enable Council to fully fund its asset maintenance requirement from 2017/2018

To support this process Council will be implementing a number of strategies to validate and refine the assumptions underpinning its infrastructure forecasting. These strategies include the finalisation of asset management plans and the consolidation of asset management planning framework, and the completion of a comprehensive service level review in consultation with residents.

3.2 Infrastructure and Service Management

Outline your strategies and outcomes in the table below.

3.2 Infrastructure and service management

Objective	Strategies	Key milestones	Outcome	Impact on other measures
3. Establish sound platform for Asset Planning and Management	3.1 Completion of Asset Management Plans. Completion of asset management plans to provide a sound platform for long-term financial forecasting and the validation of infrastructure backlog values. To be undertaken in conjunction with the review and consolidation of Council's asset management planning framework (scheduled to be completed in 2016/2017).	Review of asset management structure and staffing resources to commence in July 2016 and completed by June 2017. Asset Management Plans to be finalised by June 2017.	Strategy will establish more complete picture of useful life of assets to forecast funding requirements and support effective management of strategic and operational risks through identification of asset management intervention points.	No specific impact can be determined at this time. The finalisation of asset management plans will potentially impact on all FFTF Benchmarks.
	3.2 Service Level Review. Community engagement strategy to determine safe, affordable and agreed levels of service for all asset classes. The strategy would also explore the community's appetite and preferences for adjusting current operations to redirect resources to asset renewal and maintenance.	A service level review community engagement strategy commenced in July 2016.	Completion of review will establish a safe and realistic BTS (bring to satisfactory) asset standard for asset classes to reflect community priorities and Council's financial capacity. Review is integral to completion of Asset Management Plans.	No specific impact can be determined at this time. Has potential to impact positively on asset related FFTF benchmarks.

4. Reduce Infrastructure Backlog through increased spending on infrastructure renewal and maintenance.	4.1 Integrated Capital Works Program. Establish parameters for capital works investment with a clear priority on asset renewal to address infrastructure backlogs and upgrading existing assets. Strategy is intended to minimise future exposure to increased asset maintenance costs and annual depreciation charges.	Strategy commenced and reflected in the content of revised S94/94A Plans and current Voluntary Planning Agreements. Will be applied to future S94 Plans and VPAs.	Based on works programs contained within adopted S94/94A Plans and finalised VPAs, capital funding of $9.1M will be directed to asset renewal works between 2016/2017 and 2019/2020.	Improve: • Operating Performance Ratio • Infrastructure Renewal Ratio • Reduce Infrastructure Backlog
	4.2 Sinking Fund for Community Facilities. Introduction of building renewal and maintenance charge levied on community facilities used by external agencies to deliver fee-paying and/or funded child care services based on 50% of the annual depreciation charges for these facilities as a contribution to the maintenance and renewal of these assets.	Revised Licence Agreement with provision for building levy completed by November 2016. Payment of levy to commence 2017/2018 with staged increase to full amount payable from 2019/2020	Strategy is projected to raise $230,500 in annual contributions by 2019/2020. Revenue to be directed to the renewal and upgrade of child care centres.	Improve: • Operating Performance Ratio • Own Source Revenue Ratio • Infrastructure Renewal Ratio • Asset Maintenance Ratio • Reduce Infrastructure Backlog
	4.3a Infrastructure Borrowings Program. $25M loan facility to fund an accelerated 5 year works program with a focus on road rehabilitation, road reconstruction and renewal and the renewal of Park assets and community buildings. The Borrowings Program is the first phase of a longer term infrastructure renewal and backlog stabilisation program lined to SRV revenue (Strategy 2.1).	The Borrowings Program is linked to the proposed SRV application and will be driven by IPART requirements. A provisional $25M works program has been prepared and will be a key element of the SRV Community Engagement Strategy.	Borrowings Program is the primary financial tool within FFTF Proposal to reduce Infrastructure Renewal Requirement to a manageable level over the long term. It will address a history of under-spending on asset renewal. .	Improve: • Infrastructure Renewal Ratio • Asset Maintenance Ratio • Reduce Infrastructure Backlog • Increase Debt Service Ratio (but remain within Benchmark)

	4.3b Energy Efficiency Borrowings Program. This strategy has been included as Council wishes to explore further opportunities to invest in energy efficiency initiatives. The proposal would see Council seek a loan facility to invest in energy efficiency technology and infrastructure. Costs recovered through energy savings would be used to fund loan borrowings	Proposed pilot project (funded through loan borrowing) has been identified – replacement of all residential street lights with LED. To be actioned in 2016/2017. Existing energy efficiency initiatives have already resulted in a $336K reduction in electricity costs.	Reduction of $336K in electricity costs has been achieved to date. Modelling for the replacement of all residential lights with LED has projected savings in the order of $46K.	Improve: • Operating Performance Ratio .

3.3 Efficiency

Summarise your council's key strategies to improve performance against the Efficiency measures in the 2016-20 period, including the outcomes you expect to achieve.

The primary factor impacting on Council's performance in relation to its capacity to reduce the per-unit costs of its operations (i.e. value for money) has been the relative size and distribution of its population. As an urban/rural hybrid council, Council faces ongoing challenges in delivering services across a large geographic area given its relatively smaller rating and customer base compared with neighbouring metropolitan councils.

Despite this disadvantage, Council has been able to contain real operating expenditure per-capita through careful budget management, although this has been achieved at the expense of its capacity to fully fund the cost of maintaining and renewing infrastructure. To rectify this historic underspend, Council's Revised FFTF Proposal outlines an integrated mix of expenditure reductions and revenue increases aimed at directing substantial additional resources to infrastructure maintenance & renewal. Increasing its investment in infrastructure is the primary goal of Council's plan for its future financial sustainability. Maximising the funds available for this purpose will require Council to pursue ongoing operating efficiencies and contain the per-capita cost of services and infrastructure maintenance. To do this Council will be;

- implementing the expenditure reduction strategies as outlined in Section 3.1 of this revised FFTF Proposal;
- exploring opportunities for shared service arrangements and the aggregation of back-office functions with Blue Mountains and Penrith City Councils through a regional formal strategic alliance
- continuing to implement the Hawkesbury Residential Land Strategy to drive sustainable population growth centred on existing urban centres and villages.

In total, these strategies (in combination with Council's other FFTF strategies) will;

- increase population density and generate additional own-source revenue to drive down the per capita cost of service provision and infrastructure maintenance;
- leverage external investment through developer funded asset upgrades and renewals;
- achieve economies of scale through an aggregated population catchment across three local government areas.

Explain the key assumptions that underpin your strategies and expected outcomes.

The modeling for the main elements of the program to contain real expenditure operating expenditure per-capita is based on the following assumptions;

- a modest 0.8% ($210K) reduction in employee costs to be achieved through the adoption of new technologies, the on-line migration of customer requests, and a review of opening hours for those discretionary services whose hours of operation currently exceed industry benchmarks;

- the implementation by 2019/2020 of a number of regional joint projects which have been proposed for initial investigation through the Regional Strategic Alliance (provisional projects include Regional Digital Transformation Project, Regional Asset Management Improvement Project, Regional Energy Efficiency Upgrade, Establishment of Regional Service Contracts and Regional Strategic Service Review). While the financial impact of these projects is yet to be established, they are projected to increase operating efficiencies through the aggregation of service contracts and the sharing of resources and corporate costs across the three councils. For the purpose of this revised FFTF proposal, Council has projected a modest efficiency dividend, through its participation in these projects, of an 0.8% reduction in corporate costs - a projected annual saving of $114K by 2019/2020;

- the creation of new residential lots by 2019/2020 associated primarily with Redbank North Richmond and Jacaranda Ponds Glossodia with a projected net increase in rating income of $126K; and

- achieving an efficiency dividend of 9.9% by 2019/2020 - equivalent to a $6.9M reduction in operating expense s – as outlined in Section 3.1 of this revised FFTF Proposal.

3.3 Efficiency

Outline your strategies and outcomes in the table below.

3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
5. Reduce per-unit cost of operations.	5.1 OPEX Expenditure Reduction. This strategy primarily incorporates the operating efficiency strategies identified in Section 3.1 under Objective 1, together with further savings to be achieved through the adoption of new technology, on-line service delivery platforms, and a review of opening hours.	(as for the relevant strategies identified in Section 3.1)	Projected to deliver an efficiency dividend of 9.9% by 2019/2020 (in real terms) - equivalent to a $6.9M reduction in operating expenses. Additional $210K reduction in staffing costs to be achieved through adoption of new technology, on-line service delivery platforms, and a review of opening hours.	Improve: • Operating Performance Ratio • Infrastructure Renewal Ratio Reduce: • Per-capita Operating Expenditure • Infrastructure Backlog
	5.2 Regional Strategic Alliance. Formal partnership with Blue Mountains and Penrith City Councils to implement regional joint projects to increase operating efficiencies through the aggregation of service contracts and the sharing of resources and corporate costs across the three councils .	Council has executed Cooperation and Management Agreement with BMCC and PCC. RSA Board has been established, a provisional work program identified, and recruitment of a CEO is underway. RSA Service Company to be established.	While the financial impact of joint regional projects is yet to be established a modest efficiency dividend, equivalent to a 0.8% reduction in corporate costs has been factored into proposal - a projected annual saving of $114K by 2019/2020.	Improve: • Operating Performance Ratio Reduce: • Per-capita Operating Expenditure

	5.3 Sustainable Population Growth. Continued implementation of the Hawkesbury Residential Land Strategy (HRLS) which aims to concentrate new residential development around existing urban centres and villages through urban infill and/or greenfield expansion of existing centres.	Processes supporting the implementation of the HRLS are in train. Planning agreements have been completed for greenfield expansion of three targeted centres.	Current approvals in place for new residential developments of 2,600 lots. Investigations in train for potential 4,000+ additional lots. Projected creation of lots to 2019/20 has been estimated to generate a net increase in rating income of $126K.	Improve: • Operating Performance Ratio Reduce: • Per-capita Operating Expenditure

4. How will your plan improve performance?

4.1 Expected improvement in performance

Measure/ benchmark	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Achieves FFTF benchmark*?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-0.093	-0.118	-0.106	-0.099	-0.038	0.005	Yes
Own Source Revenue Ratio (Greater than 60% average over 3 years)	63.97%	66.69%	72.0%	78.86%	81.14%	80.58%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than100% average over 3 years)	83.04%	92.91%	98.16%	112.73%	103.46%	106.58%	Yes
Infrastructure Backlog Ratio (Less than 2%)	2.95%	1.62%	1.14%	0.93%	0.68%	0.95%	Yes
Asset Maintenance Ratio (Greater than 100% average over 3 years)	70.94%	83.75%	97.82%	100.17%	100.57%	105.35%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	0.86%	1.20%	1.16%	1.30%	1.70%	2.46%	Yes
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	0.929	0.981	0.907	0.888	0.866	0.851	Yes

* Assessment based on IPART timeframes for FFTF Performance Measures as outlined in IPART Assessment Methodology.

4.1 Expected improvement in performance

If, after implementing your plan, your council may still not achieve all of the Fit for the Future benchmarks, please explain the likely reasons why.

For example, historical constraints, trade-offs between criteria, longer time required

The implementation of Council's revised FFTF Proposal will see Council achieve 7 of the 7 FFTF Benchmarks by 2019/2020.