

Council Reassessment Proposal



Getting started . . .

Before you commence this template, please check the following:

- The Office considers this proposal should not be an onerous undertaking for Council, and encourages you to keep responses to a maximum of 500 words, ensuring the information is directly relevant to your proposal.
- Proposals should be completed within the template format provided.
- Specific references to the relevant page and/or paragraph of any attachments should also be included in your response.
- Refer to the *Fit for the Future Financial Criteria Reassessment Guidelines* as you complete your proposal template.
- Council is only required to submit for reassessment, those areas that IPART considered 'did not satisfy' the *Fit for the Future* benchmarks.
- Councils in OLG groups 8 – 11, should submit the Own Source Revenue ratio including and excluding Financial Assistance Grants (FAG) allocation.
- Councils in OLG groups 8 – 11, have until 2024/25 to achieve the benchmarks.
- FAG allocations should be calculated on Council's current funding allocation.
- The indicators are to be actual or forecast figures for each year, **not** a 3 year average as previously reported in Council's proposal assessed by IPART.
- Council should also include the Income Statement from its Long Term Financial Plan (LTFP); a hyperlink to your full LTFP; and any other documents relevant to your Council's proposal.
- You are invited to contact the Office, should you wish to further clarify your Council's proposal.
- Council should forward a copy of the Council resolution endorsing the revised proposal when available.
- Actual results for 2015/16 should be included even if they have not been audited at the time of submission. They will be treated as preliminary results.

Council name:

Tweed Shire Council

Date of Council resolution endorsing this submission:

21 July 2016

1.1 Executive Summary

Provide a summary (up to 1000 words) of the key points of your Proposal including current performance, the issues facing your council and your planned improvement strategies following IPART's initial assessment.

Thank you for the opportunity for Tweed Shire Council to resubmit the Fit for the Future (FFTF) criteria following the initial assessment by IPART.

As stated previously, the initial FFTF proposal of June 2015 was based on 2013/2014 actual results and 2014/2015 projections. Much work has been undertaken during the ensuing period consistent with the Tweed The Future Is Ours roadmap as outlined in the initial proposal. These works aided by consultants in some instances include:-

Infrastructure

- the 2014/15 revaluation process for transport and stormwater drainage assets encompassing condition assessment, the review of useful lives and current replacement costs;
- review of the adequacy of the annual indexation rates used for roads and stormwater drainage;
- review of asset maintenance requirements and basis of calculation;
- review of condition levels used to bring to satisfactory condition

Income

- Review of Road grants in future years
- Review of Fees and Charges

- Review General Fund Rates projections
- Review Investment income returns.

As outlined in the Fit for the Future – Financial criteria reassessment guidelines released May 2016, councils must:-

Criteria	Benchmark	Requirements
<u>Sustainability</u> Operating Performance Ratio	Greater than or equal to break-even average over 3 years	Councils in OLG Groups 1-7 must meet the benchmark within 5 years
Own Source Revenue Ratio	Greater than 60% average over 3 years	Councils in Groups 1-7 must meet the benchmark within 5 years.
Building and Asset Renewal Ratio	Greater than 100% average over 3 years.	All councils must meet the benchmark, or show improvement towards achieving it within 5 years
<u>Infrastructure and Service Management</u> Infrastructure Backlog Ratio	Less than 2%	All councils should meet, or show improvement towards achieving the benchmark within 5 years.
Asset Maintenance Ratio	Greater than 100% average over 3 years	All councils must achieve, or show progress towards achieving the benchmark within 5 years.
Debt Service Ratio	Greater than 0% and less than or equal to 20% average over 3 years.	All councils must meet the benchmark within 5 years.
<u>Efficiency</u> Real Operating expenditure	A decrease in Real Operating Expenditure per capita over time	Councils in Groups 1-7 should demonstrate savings over 5 years

Results

Council will meet benchmark for the Operating Performance Ratio and Own Source Revenue Ratio by 2020/2021 and has an improving Building and Asset Renewal Ratio, which will reach benchmark in 2023/2024.

Council will meet benchmark for the Asset Maintenance Ratio and Debt Service Ratio by 2020/2021 but will have an Infrastructure Backlog Ratio of 2.47%, which may reach benchmarks after the 10 year timeframe given asset renewals will be over 100%.

Council meets the benchmark for Real Operating Expenditure.

Note

Council does not have the resources to produce monthly financial reports in AASB format. As a consequence - the 2015/16 actual results including capitalisation of assets, depreciation calculations and accruals are not completed or available until August of each year. For the purposes of the template Council has used projected results.

Sustainability

Measure/ benchmark	Projected 2015 / 2016 performance	Achieves FFTF benchmark?	Forecast 2020 / 2021 performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even – actual/forecast year only)	4%	Yes	2%	Yes
Own Source Revenue Ratio (Greater than 60% - actual/forecast year only)	79.42%	Yes	84.63%	Yes
Building and Infrastructure Asset Renewal Ratio (Greater than 100% - actual/forecast year only)	133.73%	Yes	93.76%	No

What measures has council implemented to achieve the benchmarks following Council's initial proposal?

Operating Performance Ratio

As a result of the 2014/2015 revaluation process for transport and stormwater drainage assets (encompassing condition assessment, the review of useful lives [*Please refer attachment - Roads Useful Lives*] and current replacement cost) depreciation expense has fallen \$2.47m.

In addition the initial proposal included an indexation of assets at 4.2% per annum. A more suitable ABS index (6427.0 Producer Price Indexes, Australia - Table 17. Output of the Construction industries, subdivision and class index numbers) used by IPART for the Local Government Cost Index and accepted by Council's external auditor, with a long term average of 0.7% has provided further depreciation reductions of \$451,000 per annum.

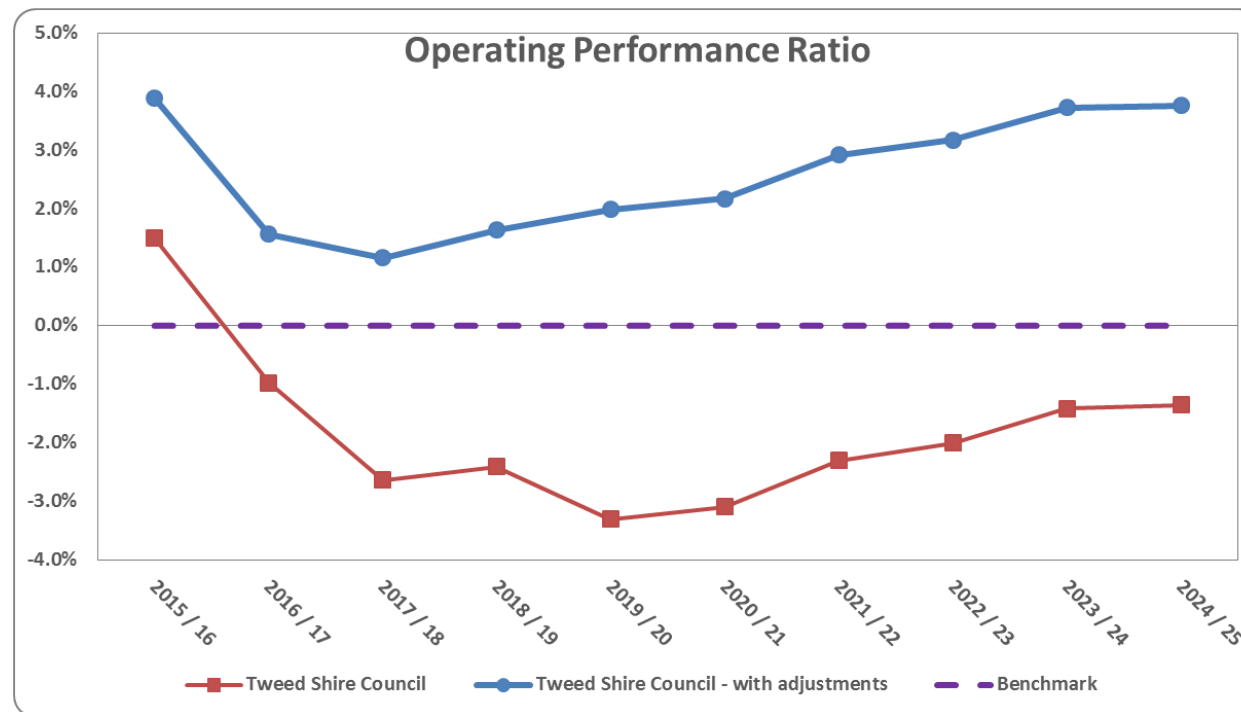
Council's initial proposal only included recurrent grant agreements with Roads and Maritime Services (RMS) up to 2018/2019. These grants, totalling \$1.8m per annum, have now been extended through to year ten of the Long Term Financial Plan.

Fees and charges estimates have been reviewed and increased by \$240,000 per annum.

Rates income has been conservatively estimated in past budgets and increased by \$1,000,000 per annum commencing 2017/2018.

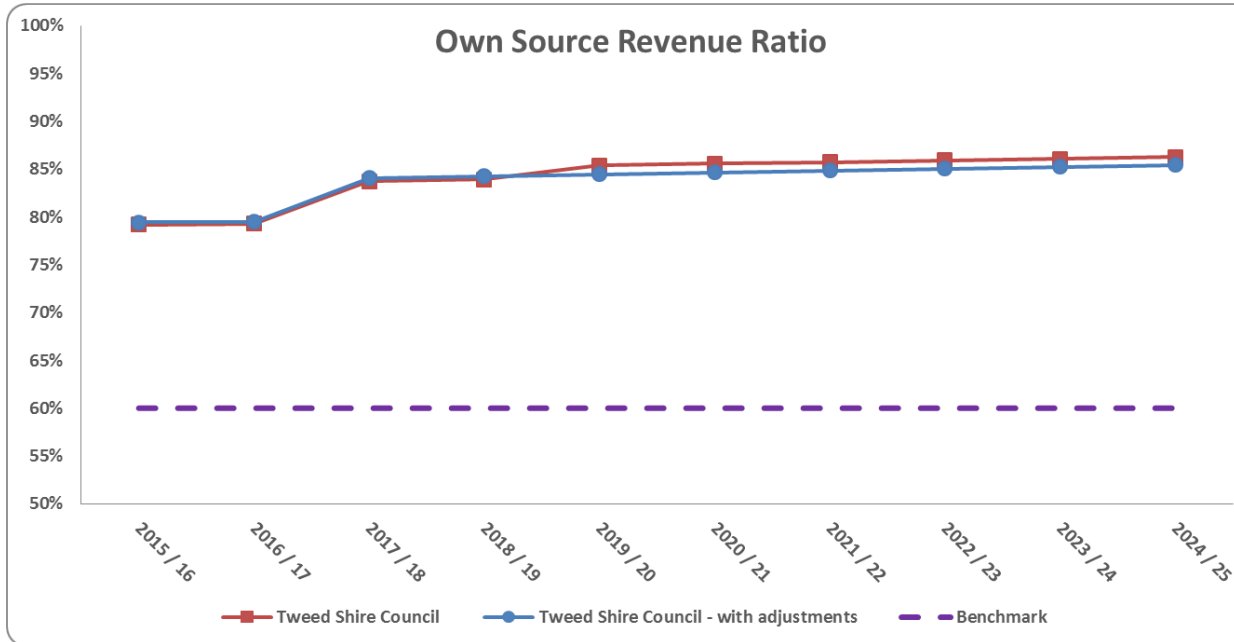
Investment income (some of which is restricted) has also been conservatively estimated in past years and has been increased \$1,000,000 per annum.

Further savings, and/or increased expenditure on assets and less on the income statement, are included at \$250,000 per annum for four years (\$1,050,000 in total). These measures on a general fund budget in excess of \$100m, is not considered onerous.



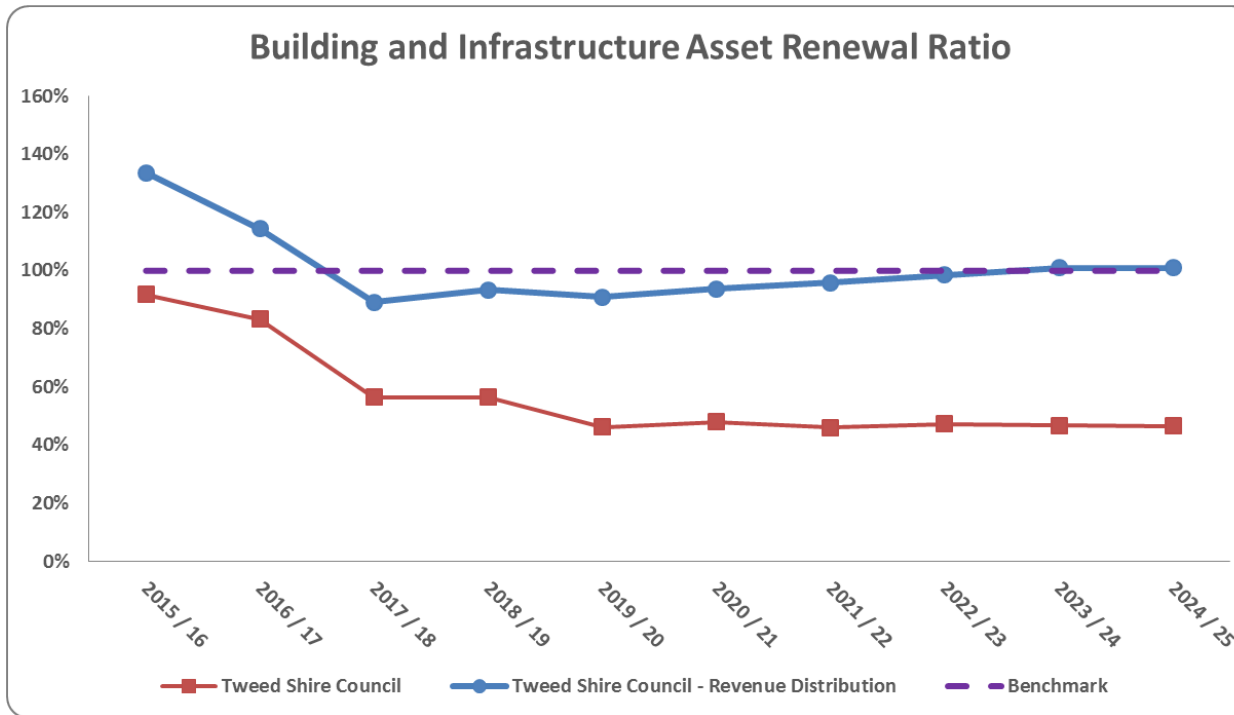
Own Source Revenue Ratio

The Own Source Revenue Ratio, consistent with the initial proposal, remains above benchmark. It should be noted that this estimate can be impacted by large developer contributions that are outside the control of Council.



Building and Infrastructure Asset Renewal Ratio

The reduction in depreciation expense and increased income levels highlighted above, particularly the RMS grants, have been directed to increased renewal expenditure. Although the benchmark has not been met in 2020/2021, the results are improving and it is estimated to be met by 2023/2024.



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

The Fit for the Future process has been valuable in focussing Councils attention on the mix of expenditure between assets and non-asset related services.

Asset condition assessments 5 years apart and the professional judgement of Council engineers indicate that at a network level roads have generally maintained their condition. The review of useful lives (benchmarked against other Councils) coupled with a more realistic asset indexation measure has resulted in the condition assessments, professional judgements and financial estimates/results being more aligned.

Setting aside one-off renewal expenditures (that are generally funded by federal/state grants) – Council has forecast an incremental increase in renewal expenditure over time and is predicted to meet the benchmark by 2023/2024 and beyond.

Infrastructure and Service Management

If Council satisfied the criterion as part of IPART's assessment, there is no need to complete this section.

Measure/ benchmark	Projected 2015 / 2016 performance	Achieves FFTF benchmark?	Forecast 2020 / 2021 performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Less than 2% - actual/forecast year only)	2.79%	No	2.47%	No
Asset Maintenance Ratio (Greater than 100% - actual/forecast year only)	98.86%	No	100%	Yes
Debt Service Ratio (Greater than 0% and less than or equal to 20% - actual/forecast year only)	8.9%	Yes	7.8%	Yes

What measures has council implemented to achieve the benchmarks following Council's initial proposal?

Infrastructure Backlog Ratio

The Office of Local Government (OLG) provides no guidance as to how the Cost to Satisfactory condition is to be calculated with a large number of different approaches to the calculation across the state.

Council's approach to calculating the Cost to Satisfactory condition adopts condition 3 as satisfactory:-

- The methodology uses the value of assets (Current Replacement Cost) in condition 4 and 5, and estimates what the cost would be to bring those assets to condition 3 (satisfactory)
- The calculation is not an estimate of projected costs. The Cost to Satisfactory condition is an indicator of asset condition, an

'estimated cost', and as such we acknowledge the reality is that those assets would be fully renewed at the time.

The following provides support for the rationale that condition 3 can be used. We also note that this approach formed the basis of a large number of Fit for the Future improvement plans submitted to IPART on 30 June 2015 and the same approach used by Morrison Low in the 2012 Infrastructure Audit conducted for the then Department of Local Government.

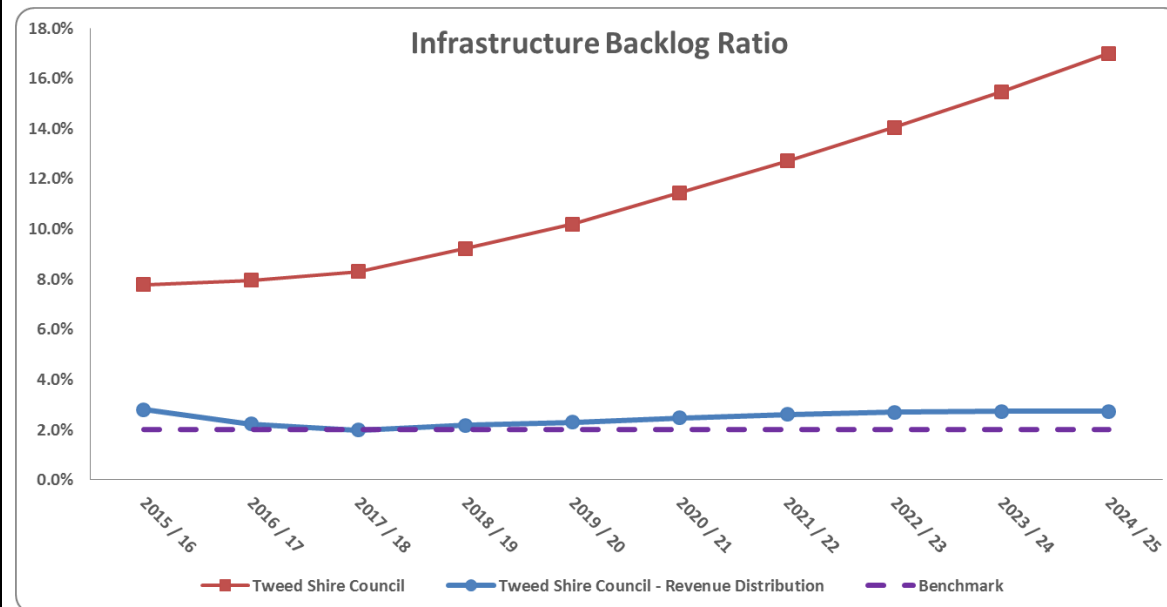
The Integrated Planning and Reporting Guidelines indicate that the level of satisfactory standard for public works should be good (level 2)

Level	Condition	Description
1	Excellent	Normal maintenance
2	Good	Some surface/pavement structure deterioration – patching only needed for repair
3	Average	Serious surface/pavement structure deterioration- requires resurfacing or recycling of pavement structure
4	Poor	Deterioration materially affecting entire surface/pavement structure- requires renovation within one year
5	Very poor	Deterioration is of sufficient extent to render the surface/pavement structure unserviceable

A comparison of the OLG condition ratings to those in the International Infrastructure Management Manual (IIMM) – 2011 (below) shows that OLG condition 2 matches condition 3 within the IIMM Manual

Condition Rating	Condition	Descriptor	Guide	Residual Life as a % of Total Life	Mean %age residual life
1	Excellent	Sound physical condition. Asset likely to perform adequately without major work.	Normal maintenance required	>86	95
2	Good	Acceptable physical condition, minimal short term risk of failure.	Normal maintenance plus minor repairs required (to 5% or less of the asset)	65 to 85	80
3	Satisfactory	Deterioration evident, failure in the short term unlikely. Minor components need replacement or repair now but asset still functions safely.	Significant maintenance and/or repairs required (to 10 - 20% of the asset)	41 to 64	55
4	Worn	Deterioration of the asset is evident and failure is possible in the short term. No immediate risk to health and safety.	Significant renewal required (to 20 - 40% of the asset)	10 to 40	35
5	Poor	Failed or failure is imminent or there is significant deterioration of the asset. Health and safety hazards exist which present a possible risk to public safety.	Over 50% of the asset requires renewal	<10	5

The Infrastructure Backlog Ratio in 2020/2021 will be below benchmark at 2.47%. This may reach benchmark after the 10 year estimated timeframe given that asset renewals will be over 100%.

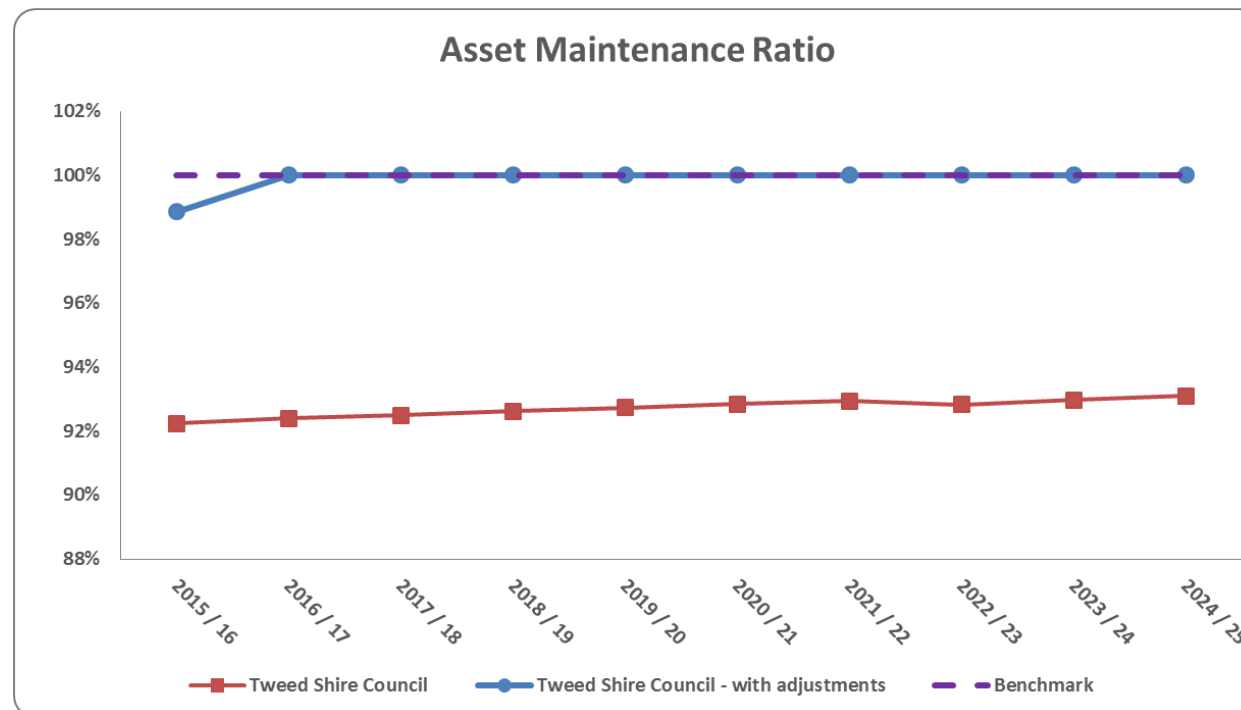


Asset Maintenance Ratio

There is no generally accepted or regulated method of calculating the asset maintenance ratio. Since Councils initial proposal we have been working with our asset consultants Assetic to create a more robust approach to this calculation.

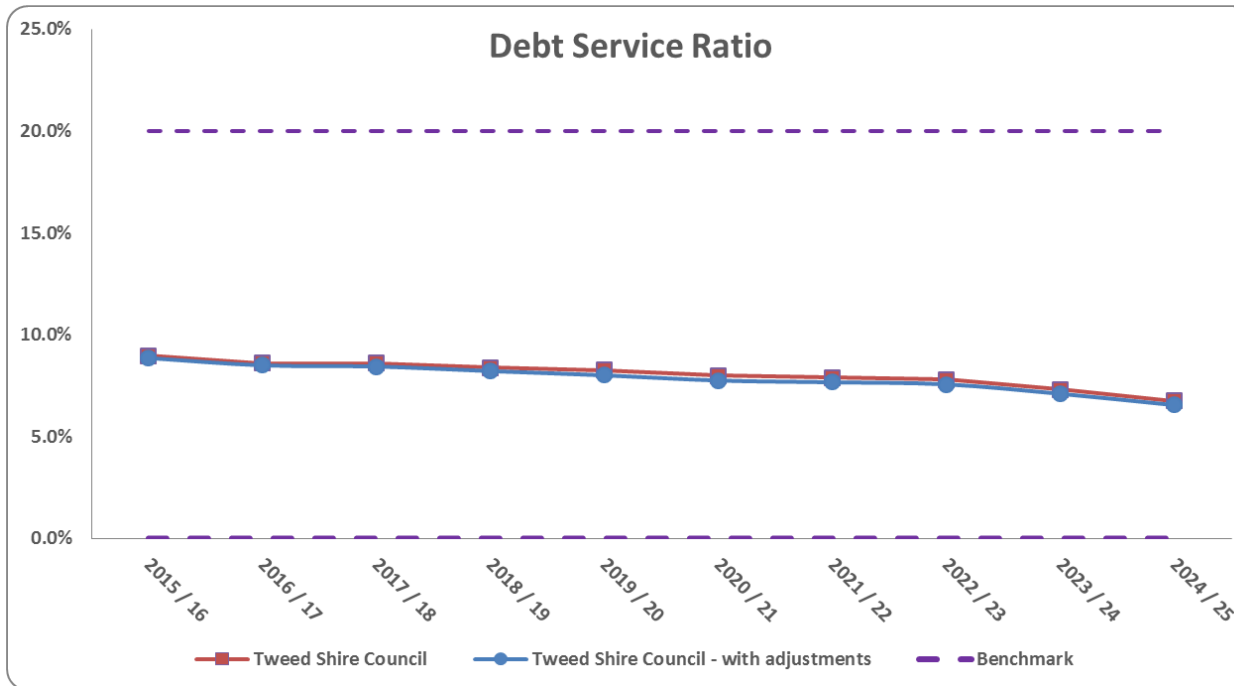
This ratio is now calculated by multiplying the replacement value by condition level by an asset category specific index factor created using the practices and historical data of Assetic clients. *Please refer attachment - Required Annual Maintenance*

The Asset Maintenance Ratio benchmark will be met in 2016/2017.



Debt Service Ratio

The Debt Service Ratio, consistent with the initial proposal, remains between the benchmarks.



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

The Infrastructure Backlog Ratio of 2.47% in 2020/2021 is \$5.513m. This backlog amount compared to 2020/2021 Current Replacement Cost results in a backlog ratio amount is 0.37%.

In addition, although Council has not undertaken the assessment to date, there could be assets in condition levels 4 and 5 that are not planned to be renewed to the global condition 3 - this may include outlying low volume/low risk roads - and on this basis it is likely that Council will reach the benchmark within xx years once analysis has been finalised and noting that asset renewals will exceed 100% within 10 years.

Efficiency

If Council satisfied the criterion as part of IPART's assessment, there is no need to complete this section.

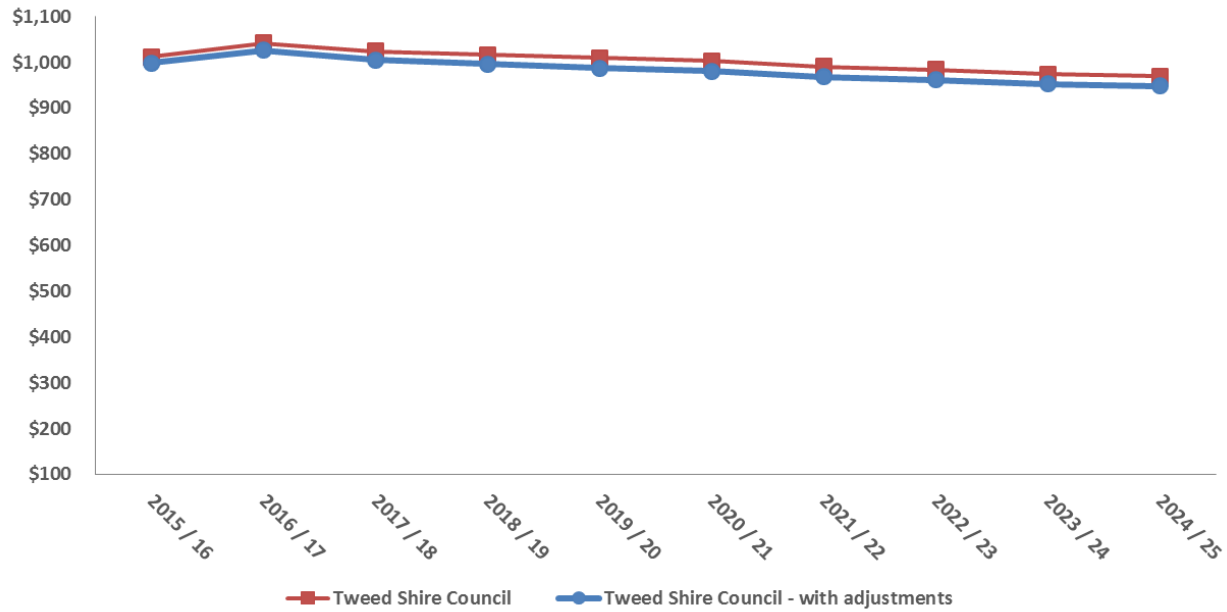
Measure/ benchmark	Projected 2015 / 2016 performance	Achieves FFTF benchmark?	Forecast 2020 / 2021 performance	Achieves FFTF benchmark?
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	1.02	Yes	1.01	Yes

What measures has council implemented to achieve the benchmarks following Council's initial proposal?

Real Operating Expenditure per capita

The Real Operating Expenditure per capita Ratio, consistent with the initial proposal, remains above benchmark.

Real Operating Expenditure per Capita



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

N/A

How will your council become Fit for the Future?

Sustainability

Summarise your council's key strategies to improve performance against the Sustainability benchmarks in the 2020/21 period, (2025/26 for OLG group 8-11) including the outcomes you expect to achieve.

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

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

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

Sustainability

Outline your strategies and outcomes in the table below

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.	a) b) c)			

Infrastructure and Service Management

If Council satisfied the criterion as part of IPART's assessment, there is no need to complete this section.

Summarise your council's key strategies to improve performance against the Infrastructure and Service Management benchmarks in the 2020/21 period, (2025/26 for OLG group 8-11) period, including the outcomes you expect to achieve.

Please refer to above comments.

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

Please refer to above comments.

Infrastructure and Service Management

If Council satisfied the criterion as part of IPART's assessment, there is no need to complete this section.

Outline your strategies and outcomes in the table below.

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.	a) b) c)			

Efficiency

If Council satisfied the criterion as part of IPART's assessment, there is no need to complete this section.

Summarise your council's key strategies to improve performance against the Efficiency measures in the 2020/21 period, (2025/26 for OLG group 8-11), including the outcomes you expect to achieve.

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

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

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

Efficiency

If Council satisfied the criterion as part of IPART's assessment, there is no need to complete this section.

Outline your strategies and outcomes in the table below.

Objective	Strategies	Key milestones	Outcome	Impact on other measures
1.	a) b) c)			

Improvement Action Plan

Summarise the key improvement actions that will be achieved in the first year of your plan.

Action plan

Actions

Milestones

1. Please refer to above comments.

*** Please attach detailed action plan and supporting financial modelling**

Outline the process that underpinned the development of your Action Plan.

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

Other actions considered

In preparing your Improvement Action Plan, you may have considered other strategies/actions but decided not to adopt them. Please identify what these strategies/actions were and explain why you chose not to pursue them.

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

Measure/ benchmark	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22 (Group 8-11 Councils only)	2022/23 (Group 8-11 Councils only)	2023/24 (Group 8-11 Councils only)	2024/25 (Group 8-11 Councils only)	2025/26 (Group 8-11 Councils only)	Achieves FFTF benchmark?
Debt Service Ratio (Greater than 0% and less than or equal to 20%)	8.9%	8.5%	8.4%	8.2%	8.0%	7.8%	7.7%	7.6%	7.1%	6.5%		Yes
Real Operating Expenditure per capita A decrease in Real Operating Expenditure per capita over time	1.02	1.05	1.03	1.02	1.01	1.0	9.9	9.8	9.7	9.7		Yes

Include Council's Income Statement from its Long Term Financial Plan, as well as a hyper link to Council's full Long Term Financial Plan.

Attachment – LTFP GF FFTF 2016_2017 is the Long Term Financial Plan adopted by Council 21 July 2016. This document includes amendments that were not included in the original 2015/2016 Long Term Financial Plan formulated in February 2016.

Also provide a link to Council's original FFTF submission to IPART and any other documents relevant to Council's proposal.

<http://www.tweed.nsw.gov.au/SubmissionsByCouncil>

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.

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

Putting your plan into action

How will your council implement your Improvement Action Plan?

Comment in this section is not required as Council meets the financial criteria benchmark – please refer to above comments.

Water utility performance

NB: This section should only be completed by councils who have direct responsibility for water supply and sewerage management

Does your council currently achieve the requirements of the NSW Government Best Practice Management of Water Supply and Sewerage Framework?

Yes

If NO, please explain the factors that influence your performance against the Framework.

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How much is your council's current (2014/15) water and sewerage infrastructure backlog?

Water - \$10,836,000 Sewer - \$10,196,000 Total - \$21,032,000
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Water utility performance

Identify any significant capital works (>\$1m) proposed for your council's water and sewer operations during the 2016-17 to 2020-21 period and any known grants or external funding to support these works.

Capital works

Proposed works	Timeframe	Cost	Grants or external funding
Chambers Hill reservoir	2016/2017	\$2,300,000	Nil
Gravity sewer relining	2016/2017	\$1,000,000	Nil
Bray Park water treatment plant membrane replacement	2017/2018	\$4,500,000	Nil
Gravity sewer relining	2017/2018	\$1,000,000	Nil
Upgrade water pump stations 1 and 1A	2017/2021	\$2,592,000	Nil
Kings Forest sewer rising main	2018/2019	\$2,600,000	Nil

Gravity sewer relining	2018/2019	\$1,000,000	Nil
Banora Point Sludge Hopper	2019/2020	\$1,377,000	Nil
Parks Lane sewerage	2019/2020	\$2,070,000	Nil
Water trunk main upgrade Old Ferry Road	2019/2021	\$12,084,000	Nil
Gravity sewer relining	2019/2020	\$1,000,000	Nil
Walmsleys reservoir	2020/2021	\$4,335,000	Nil
Banora Point Effluent PS Upgrade	2020/2021	\$3,073,000	Nil
Banora Point WWTP SRM Outfall Upgrade	2020/2021	\$7,130,000	Nil
Trunk Main Drydock Rd to WWTP	2020/2021	\$4,988,000	Nil
Upgrade WPS 9	2020/2021	\$1,729,000	Nil

Raising of Clarrie Hall Dam	2016/2026	\$58,000,000	Nil
Link to SEQ Water/Gold Coast Water	2016/2020	\$16,000,000	Nil

Water utility performance

Does your council currently manage its water and sewerage operations on at least a break-even basis?

Yes

If No, please explain the factors that influence your performance.

Water utility performance

Identify your council's key strategies to improve the performance of its water and sewer operations in the 2016-17 to 2020-21 period.

Improvement strategies

Strategy	Timeframe	Anticipated outcome
Revising the Strategic Business Plan to identify efficiencies and mitigate risks. This is ongoing with continual reviews and is impacted by uncertainty associated with the proposals to service some developments through the WIC Act. Capital works programs revised to better reflect requirements for growth	Ongoing	Continual review and updating of capital works programs to meet growth requirements
Revising the Long Term Financial Plan and associated Developer Servicing Plans to ensure financial sustainability. Again this is ongoing and is being enhanced with the use of MyPredictor to identify assets for review prior to renewal expenditure. Further work is being done to reduce energy costs with significant savings in the 2015/16 FY	Ongoing	Annual review, validation and updating of capital works programs to meet growth and renewal requirements
Continue to participate in Best Practice benchmarking to identify areas for improvement	Ongoing	Improved service outcomes
Development of asset renewal strategies.	2016/17	Better targeted renewal expenditure and improved use of capital assets

Review of OMA expenditure to identify trends and savings.

2016/17

improved use of capital assets and reductions in operating costs