

# Template 2

Fit for the Future

## Council Improvement Proposal

(Existing structure)



Office of  
Local Government

# Getting started . . .

Before you commence this template, please check the following:

- You have chosen the correct template – only councils that have sufficient scale and capacity and who do not intend to merge or become a Rural Council should complete this template (Template 2)
- You have obtained a copy of the guidance material for Template 2 and instructions for completing each question
- You have completed the self-assessment of your current performance, using the tool provided
- You have completed any supporting material and prepared attachments for your Proposal as PDF documents. Please limit the number of attachments and ensure they are directly relevant to your proposal. Specific references to the relevant page and/or paragraph in the attachments should also be included.
- Your Proposal has been endorsed by a resolution of your Council.

**Council name:** **Muswellbrook Shire Council**

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**Date of Council resolution endorsing this submission:** **25 June 2015**

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## 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.

In 2009, Muswellbrook Shire Council embarked upon a fundamental review of its services with a view to substantially improving its financial position and, particularly, the general fund revenue available to fund the renewal of infrastructure, new and upgraded assets, and to build capacity and efficiency within Council's operations. Council's improvement proposal confirms that Council has suitable scale and capacity within a Joint Organisation of Councils (Hunter Councils) and that Council meets each of the benchmarks set out by the State Government by 2017/18.

Council is in a sound financial position, which has been arrived at through disciplined financial management of Council's finances. On current performance, Council would meet all but two of the benchmarks as set for Rural Councils (noting that Muswellbrook Shire Council is classified as a Group 11 Council). Council's Further Improvement Plan has identified opportunities which will further strengthen its position to support the current and future needs of its community.

## 1.2 Scale and Capacity

Does your council have the scale and capacity broadly consistent with the recommendations of the Independent Local Government Review Panel?

*(ie, the Panel did not recommend your council needed to merge or become a Rural Council).*

**Yes / ~~No~~**

If No, please indicate why you are not proceeding with a voluntary merger or creation of a Rural Council as recommended by the Independent Panel and demonstrate how your council has scale and capacity (up to 500 words).

The Independent Local Government Review Panel identified Muswellbrook Shire Council as sustainable in its own right and it was not recommended as a potential merger partner. The Panel's preference was for Muswellbrook Shire Council to be a standalone council within a Joint Organisation. Council demonstrates in its Further Improvement Plan that it has the required elements of scale and capacity.

## 2. Your council's current position

### 2.1 About your local government area

Explain the key characteristics of your local government area, your community's goals and priorities and the challenges you face in the future (up to 500 words).

*You should reference your Community Strategic Plan and any relevant demographic data for this section.*

The Muswellbrook Shire Council area is centrally located in the Upper Hunter Valley Region of New South Wales, approximately 130 kilometres north-west of Newcastle. The Shire area is bordered by Upper Hunter Shire Council in the north, Singleton Council in the south and Mid-Western Regional Council in the west.

The Shire area is a rich agricultural resource for the State of NSW. Muswellbrook Shire is the centre of the NSW thoroughbred breeding industry with the substantial majority of thoroughbred racehorses (by value) sired in the Shire. Muswellbrook Shire is also home to approximately 15% of the Hunter's wine grape production.

Muswellbrook is the main centre for NSW's power generation capacity. It has also become the major centre of Upper Hunter coal mining, with the largest concentration of open cut mining operations and major expansion of mining approvals over the last few years. It has the second highest rate of coal extraction in NSW.

The Shire area covers a total land area of approximately 3,400 square kilometres, of which 43% is national park.

Council is responsible for a range of opportunities and challenges to work through on behalf of its community, including advocacy, the provision of infrastructure and services, environmental planning, and the management of the Council's finances. Council is engaged directly in addressing each of these matters, and is particularly well placed to continue to drive improved outcomes for the Shire's community and industry stakeholders, taking into account a range of circumstances peculiar to the Muswellbrook LGA.

The Muswellbrook Shire Council *Community Strategic Plan 2013-2023* outlines five key directions for its future, namely:

- Liveable and sustainable communities
- Economic growth and diversity
- Infrastructure to support community connectivity, access and wellbeing
- Community identity and diversity
- Leadership

The Muswellbrook Local Government Area has enjoyed high population growth in recent years associated with the development of the mining industry. Current trend analysis of census data and that of the NSW Department of Planning and Environment forecasts relatively high population growth, which will provide the scope for increasing Council revenues into the future. Council anticipates population growth in the short term, which is expected to be driven by ongoing growth in the coal industry and the continued release of staged residential development in Muswellbrook and Denman. Council has positioned the Shire well with improvements in liveability infrastructure to build improvements in the public amenity of the Muswellbrook Shire, which is anticipated to allow for organic population growth independent of movements in the fortunes of the coal industry.

The Muswellbrook Shire Council area generates a Gross Regional Product of \$3.327 billion per annum. In 2012, the Shire had 1,047 businesses, mostly in the Agriculture, Forestry and Fishing industry. The majority of fulltime roles in the Shire are employed in Mining; Retail Trade; and Agriculture, Forestry and Fishing. Mining supports industries such as engineering, construction, transport, logistics and human resources, which have become well established in Muswellbrook. It has adequate employment land available to meet demand over the short term, which will require careful monitoring over the longer term.

## 2.2 Key challenges and opportunities

<b>Strengths</b>	<b>Weaknesses</b>
<p>Leadership capacity  Staff capacity  Asset management (roads)  Financial management</p>	<p>Consistency of data across Council plans  Business systems  Asset management (drainage, buildings, water, swimming pools)  Maintenance of legacy liabilities</p>
<b>Opportunities</b>	<b>Threats</b>
<p>Activities to improve the bottom line  Building capacity within the organisation  Undertake service reviews  Improved systems to make information more reliable  Improved energy efficiency</p>	<p>Increasing demands on Councils by State Government  Staff attrition  Statutory setting of rates and charges  Levels of uncertainty in the local economy</p>

## 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?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-0.033%	No	-5.20%	No
<b>Own Source Revenue Ratio</b> Ratio (Greater than 60% average over 3 years)	58.40%	No	64.40%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	107.60%	Yes	127.80%	Yes

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

Council has budgeted to achieve an operating performance benchmark by 2017/18, although as Council budgets conservatively, it is probable that Council will meet the operating performance benchmark sooner. It is noted that Council's modelling excludes Federal Assistance Grants (FAGs) for the purposes of the Own Source Revenue ratio. IPART determined that Rural Councils (including Group 11) may include FAGs in this measure.



## 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?
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	1.79%	Yes	0.60%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	71.0%	No	70.10%	No
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	2.70%	Yes	4.50%	Yes

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

Council has recently undertaken a high fidelity review of its road asset depreciation which has adjusted the figure down by approximately \$1m per annum. Council has also adjusted down its required maintenance allowance following a comprehensive review of historical experience. The allowances are, nonetheless, substantially higher than allowances made by statistically equivalent councils. It is probable, therefore, that the 2014/15 financial statements overstate the amount required for asset maintenance and the depreciation expense.

### 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?
<b>Real Operating Expenditure per capita</b> <small>A decrease in Real Operating Expenditure per capita over time</small>	\$1,340	No	\$1,617	Yes

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

## 2.4 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 / ~~No~~**

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

How much is your council's current (2013/14) water and sewerage infrastructure backlog?

## 2.4 Water utility performance

Identify any significant capital works (>\$1m) proposed for your council's water and sewer operations during the 2016-17 to 2019-20 period and any known grants or external funding to support these works.

### Capital works

Proposed works	Timeframe	Cost	Grants or external funding
Muswellbrook Water Treatment Plan Upgrade	2016-20	\$3.75m	None
South Muswellbrook Reservoir and Pumping Station	2018-20	\$6.30m	None
South Muswellbrook Water Mains	2018-20	\$4.70m	None
Muswellbrook Recycled Waste Water Plant Upgrade	2016-18	\$44.16m	\$9.6m (Hunter Infrastructure and Investment Fund)
Sewer Transportation System Upgrade	2019-20	\$1.6m	None

## 2.4 Water utility performance

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

**Yes / No**

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

## 2.4 Water utility performance

Identify some of your council's strategies to improve the performance of its water and sewer operations in the 2016-17 to 2019-20 period.

### Improvement strategies

Strategy	Timeframe	Anticipated outcome
Muswellbrook Water Treatment Plant Upgrade	2015-23	Improved capacity to meet future water requirements
South Muswellbrook Extensions and Reservoir	2018-20	Improved service reliability and capacity to meet development needs
Muswellbrook Recycled Waste Water Treatment Plant	2016-18	Improved service reliability and capacity to meet development needs
Sewer Transportation System Upgrade	2019-20	Improved service reliability

## 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.

Council will implement the following strategies to build on its sound performance in financial sustainability.

#### **Increase/Maintain Revenue**

Council has modelled new mining category rates revenue into its plans to reflect the advanced state of approved mining projects that will come on stream in the short term. In addition Council has been successful in receiving grants for asset renewal of mine affected roads and other assets. Council's new LTFP makes a conservative provision for continuation of these grants.

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.*

Refer to pages 21-25 of attached supporting documentation.

## 3.1 Sustainability

Outline your strategies and outcomes in the table below.

### 3.1 Sustainability

Objective	Strategies	Key milestones	Outcome	Impact on other measures
Increase or maintain key revenue streams	<ul style="list-style-type: none"> <li>Continue to work with new approved mining projects to ensure projects come on stream as proposed</li> <li>Continue to apply for grants for renewal of mine affected assets and other infrastructure</li> </ul>	2015/16	\$3.6m over four years	Improvements in service levels and service delivery.



## 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.

Council will implement the following strategies to build on its already strong performance in infrastructure and service management.

### **Asset Management Improvements**

Asset expenditure has been remodelled and any operating surplus or improvement savings have been applied firstly to improve renewals and address infrastructure backlog as quickly as possible. Once the backlog is addressed, renewals are reduced and maintenance increased until the maintenance ratio reaches 100% (if required). Thereafter, investment in maintenance is calculated at a level to maintain a ratio of 100%. This initiative impacts directly on the Asset Maintenance Ratio enabling it to reach the benchmark earlier than initially projected. Council will undertake a review of actual maintenance costs.

### **Asset Rationalisation**

With a particular focus on rationalising underused land and building assets, duplicated assets and those at the end of their useful lives, Council has identified areas where assets can be rationalised to realise the capital value of underused and underperforming assets. Council proposes that the proceeds from the sale of land and buildings be held for future use, but has allowed an interest benefit of \$16,000 over four financial years.

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

Refer to pages 21-25 of attached supporting documentation.

## 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
Sale of surplus land and properties	Sales planned over two years Proceeds from sale invested and interest used in General Fund	2015/16	\$16,000 additional revenue from interest	Improvements in operational efficiency
Review asset management data	Review asset management plans and required maintenance	2015/16	Improved capacity in asset management	Improvements in efficiency and strategic capacity (not evaluated)

### 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.

Council will implement the following strategies to build on its efficiency performance.

#### **Review Delivery Model for Certain Council Functions and Services**

Council has identified an opportunity to deliver existing functions and services more efficiently through a two-staged Organisational Review. This process had commenced independently of FFTF in response to Council's need to ensure Muswellbrook is a leading, contemporary local government that is well structured to deliver on community expectations now and into the future. This process will examine organisational performance, processes, systems and structures.

Council has identified additional opportunities for increased efficiency through enhancements to strategic capacity. The first initiative will focus on improving systems and processes, and training for staff or recruitment of key staff to meet skills gaps identified within the organisation.

These opportunities will improve Council's scale and capacity to govern more effectively and to continue to provide a strong voice for its community.

#### **Undertake Service Reviews**

In the 2016/17 Financial Year, Council will commence a two-staged review of the following services:

- Tourism and Economic Development
- Pools
- Libraries
- Art Gallery
- Planning and Building

- Community Infrastructure

Council estimates a cost saving will be generated over four financial years.

Renewable Energy Target

Council has identified opportunities for increased efficiency through an Energy Renewal Program. This program has been recently introduced by Council and savings are still being modelled, although initial conservative estimates suggest a cost saving opportunity of \$80,000 over four financial years.

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

Refer to pages 21-25 of the attached supporting documentation.

### 3.3 Efficiency

Outline your strategies and outcomes in the table below.

### 3.3 Efficiency

Objective	Strategies	Key milestones	Outcome	Impact on other measures
Service Review Program	Review specific services, including service levels, service expectations, trends, delivery models and performance. Refine services.	2016/17	TBC	Improvement in efficiency, likely reduction in service delivery and some impact on service levels and strategic capacity (not evaluated)
Strategic Capacity Improvements	Undertaken in conjunction with the Organisational Review. Systems and process improvements. Training and recruitment of key skill gaps.	2015/16	TBC	Improvement in efficiency and service delivery and some impact on strategic capacity (not evaluated)

Renewal Energy Program

Program to be developed. Phase benefits estimated to be \$80,000 over four years.

2015/16

Savings of \$80,000 over four years

Improvement in efficiency, likely reduction in service delivery and some impact on service levels and strategic capacity (not evaluated)

## 3.4 Improvement Action Plan

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

### Action plan

#### Actions

#### Milestones

Continue to work with new approved mining projects to ensure projects come on stream as proposed.

Increase in revenues from the mining category of rates

Continue to apply for grants for renewal of mine affected assets and other infrastructure

Successful grant applications

Review of asset management data

High fidelity asset accounting outcomes

Rationalisation of underutilised and underperforming assets

Commence review of assets

Undertake service reviews across Council's business units

Commence service reviews in recreational, cultural, tourism and economic development, and planning and building activities



Strategic Capacity Improvements

Identify opportunities to build capacity within the organisation, including systems and process improvements, training and recruitment to meet key skills gaps

Renewable Energy Program

Finalise development of renewable energy program to meet Renewable Energy Target of 40% by 2020.

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

Council contracted consultants Morrison Low to develop a Council Improvement Strategy and Implementation Plan. A series of Councillor and staff workshops was undertaken to provide guidance and strategic direction in the development of initiatives which have informed the Council Improvement Plan.

### 3.5 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.

Council considered a number of other opportunities to improve Council's overall performance into the future, including: consideration of a Special Rate Variation; and a review of Council's Fees and Charges with a view to moving further towards cost neutrality.

It is noted that Council will undertake service reviews in 2015/16 and 2016/17 in consultation with the community in relation to the provision of recreation, environmental, education and cultural activities. These service reviews may reveal a community desire for a range of new levels of service and new infrastructure. Until that work is completed, it is not possible to estimate costs associated with new infrastructure. Council would consider as an option and in consultation with community, making application for a Special Rate Variation to fund any new infrastructure identified by the community. However, there are no anticipated needs at present for any increase in rates revenues above the rate peg. These service reviews may also result in adjustments to Council's Fees and Charges. However, until these reviews are completed – in consultation with the community – Council is not in a position to make assumptions in relation to any changes in revenues and expenditures.

## 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?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)	-4.50%	-4.30%	-1.50%	1.0%	2.0%	2.10%	Yes
<b>Own Source Revenue</b> Ratio (Greater than 60% average over 3 years)	53.10%	55.50%	60.90%	72.10%	77.60%	77.80%	Yes
<b>Building and Infrastructure Asset Renewal</b> Ratio (Greater than 100% average over 3 years)	170.90%	169.50%	152.80%	101.70%	103.30%	106.80%	Yes
<b>Infrastructure Backlog Ratio</b> (Less than 2%)	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%	Yes
<b>Asset Maintenance Ratio</b> (Greater than 100% average over 3 years)	81.80%	84.80%	98.60%	101.70%	103.50%	104.20%	Yes
<b>Debt Service Ratio</b> (Greater than 0% and less than or equal to 20% average over 3 years)	4.80%	4.70%	4.30%	4.0%	3.80%	3.60%	Yes
<b>Real Operating Expenditure per capita</b> A decrease in Real Operating Expenditure per capita over time	\$1,704	\$1,639	\$1,637	\$1,631	\$1,635	\$1,628	Yes

**Note:** IPART will assess this table in accordance with section 3.3 in the [Methodology for Assessment of Council Fit for the Future Proposals](#)

\*if your council is including FAGs in this calculation please provide information for years 2020/21 to 2024/25 on the following page.

## 4.1 Expected improvement in performance (rural with FAGS considered\*)

Measure/ benchmark	2020/21	2021/22	2022/23	2023/24	2024/25	Achieves FFTF benchmark?
<b>Operating Performance Ratio</b> (Greater than or equal to break-even average over 3 years)						Yes/No
<b>Own Source Revenue Ratio</b> (Greater than 60% average over 3 years)						Yes/No

\*Includes councils in OLG groups 8,9, 10 and 11 only. See page 42 of IPART's [Methodology for Assessment of Council Fit for the Future Proposals](#)

## 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.

Council has been undertaking a continual process of improvement since 2009, which has provided Council with the solid foundation to continue to operate as a stand-alone council, to fund the renewal of infrastructure and to build capacity and efficiency within Council's operations. The continuation of this program of improvement has been enhanced by a number of additional strategies outlined in Council's Further Improvement Plan, which demonstrates that Council is in a position to meet all of the FFTF benchmarks by 2017/18.

## 5. Putting your plan into action

How will your council implement your Improvement Action Plan?

Council has resolved to monitor progress against key improvement strategies on a quarterly basis. The implementation plan will be developed by consultants Morrison Low and will ensure that the identified strategies are achieved over time and that Council will continue to operate on a sustainable footing into the future, maintaining the requirements of the *Fit for the Future* program.