ANNEXURE A

Draft Fit for the Future Proposal

Draft Fit for the Future Proposal

Presented to the Ordinary Council Meeting
held on 26 March 2015

1.1 EXECUTIVE SUMMARY

The Glen Innes Severn Council was identified as a stand-alone Council in Group F of the New England Region by the Local Government Independent Review Panel. Since this review, Council has further strengthened its position through financial and infrastructure improvement measures.

This Fit For the Future (FFF) Proposal confirms significant improvements and the scale and capacity for remaining a stand-alone Council, through an analysis of contributing factors by demonstrating Council's scope to undertake major projects and new functions; better resources to cope with complex and unexpected change; improved capability to inject innovation into its own functions; strong partnership with State and Federal Government agencies; regional collaboration; and acting as an effective voice for its community. A more robust revenue base, increased discretionary spending, the ability to employ a wider range of qualified staff with advanced skills in strategic planning and policy development, and effective political and managerial leadership also contribute to Council's capability. Other favourable factors include financial contributions to the General Fund from the Water and Sewer Funds, an acceptable level of grant dependency, and an opportunity for boundary adjustments. The impracticality of merging with neighbouring LGA's is also addressed.

Although only currently meeting one (1) of seven (7) FFF ratios (based on 2013/14 Financial Report results), the Action Plan (AP) identifies that this does not accurately reflect savings and revenue increases in the last two (2) years, due to the three (3) year rolling average calculation methodology. The current position also excludes the full $1million per annum revenue increase from the Special Rates Variation (SRV) implementation, as well as significant savings identified as part of the SRV process.

The Proposal and AP show Council meeting all ratios within the short term, except the Infrastructure Backlog Ratio – which will take many years to address. However, significant progress will be made. These improvement strategies include completing advanced Asset Management Plans (to better direct the LTFP and capital projects); applying SRV and LIRS funding; boundary adjustments in line with identified communities of interest; limiting expenditure increases, selling unused assets; identifying further internal savings and efficiencies; increasing fees and charges on a cost recovery basis; and increasing Water and Sewer charges to pay dividends and debt service charges to the General Fund.

The AP further projects that Council's Water and Sewer Funds will continue to operate profitably as sustainable enterprises; adding significantly to its scale and capacity. Glen Innes Aggregates, as a financially contributing business enterprise, also forms part of a strategy where opportunities are maximised and structural and inherent weaknesses are minimised.

The majority of Council's key Community Strategic Plan (2013 – 23) goals have been met, including infrastructure renewal and beautification of Glen Innes' CBD, positively addressing Glen Innes' Water Security and improvements in Council's road infrastructure. Weighing up the strengths, weaknesses, opportunities and threats of the Local Government Area, read in conjunction with the AP, strongly support Council's sustainable autonomous future – which arguably presents a model case for a rural based Council.

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1.2 SCALE AND CAPACITY – SUMMARY

The Independent Local Government Panel (The Panel) in their final report of October 2013 "Revitalising Local Government" identified that the Glen Innes Severn Council had sufficient scale and capacity to operate as a stand alone Council in the New England Region and that the Glen Innes Severn Council fell into Group F "Current and/or projected 2031 population 5-10,000 (Review status by 2020)" Council. This grouping was accompanied by the following review:

Council	Popn. 2011	Popn 2031	TCORP FSR (Apr 13)	TCORP Outlook (Apr 13)	DLG Inf. Audit (May 13)	Rate Base	Grant Dependency	Merger Potential	Options
Glen Innes - Severn	8,965	8,900	Moderate	Neutral	Weak		High	Medium	Council in New England Joint Organisation

Subsequent to this review, Council has undertaken a number of significant measures to further bolster its financial sustainability, reduce its reliance on grants, and improve the status of its infrastructure. These measures include the approval of a significant Special Rate Variation (SRV) of 29.19%, a review of service levels, increasing loan funding through LIRS and introducing tough internal cost savings; such as the cessation of unprofitable long day care services provided in the community where these services are already adequately provided by the private sector.

These measures have seen Council's position strengthen following the review and it is now confident that with a strong Action Plan (AP) and a firm eye on the budget it can meet the majority of the set criteria within a reasonable time period.

Council has made an assessment of its own abilities, compared with the benchmarks identified by The Panel and has addressed these in more detail in its response below. This assessment indicates that Council:

- Is actively building a more robust revenue base;
- has the scope to undertake major projects, in particular those identified by the community in the Community Strategic Plan (CSP);
- has the ability to employ specialist staff to address internal and external demands;

- has the knowledge to think creatively and act innovatively;
- has good strategic planning skills and policy making ability;
- has contributed effectively to regional collaboration;
- is a credible advocate for its community;
- is a capable partner for State and Federal agencies;
- has demonstrated the ability to cope with complex and unexpected change; and
- is well managed both on a political and managerial level.

The process of review has indicated that there are possible areas for improvement which should be addressed as part of Council's Action Plan to become Fit For The Future (FFF). These are:

- Council needs to progress all of its asset management plans from core to an advanced level;
- Council needs to achieve the Long Term Financial Plan (LTFP) projection of obtaining an operating surplus and meet its own source operating ratio;
- Council needs to further develop its regional collaboration as part of a future Joint Organisation (JO);
- Council needs to actively pursue opportunities to sustainably grow its population above the 10,000 threshold.

However, based on the accomplishments of Council in the last few years it is clear that it is well-managed and operating to a standard that should see it stand as an independent Council for decades to come. Therefore, Council agrees with The Panel's assessment of Council's scale and capacity as being adequate, although it acknowledges that there is still additional work to do.

Review of Scale and Capacity

Recommendations of the Panel

The Panel identified the Glen Innes Severn Council as a Group F Council "Current and/or projected 2031 population 5-10,000 (Review status by 2020)". The 'rating' below is sourced from their final report:

Council	Popn. 2011	Popn 2031	TCORP FSR (Apr 13)	TCORP Outlook (Apr 13)	DLG Inf. Audit (May 13)	Rate Base	Grant Dependency	Merger Potential	Options
Glen Innes -	8,965	8,900	Moderate	Neutral	Weak		High	Medium	Council in New England

Severn									JO

The Panel (on page 112) recommended that Councils in Group F consider whether a merger could improve their sustainability and build strategic capacity. The panel further recommended that these Councils should be kept under review to ensure that they remain sustainable and are able to provide an adequate range of local services and to work effectively as a full member of a JO.

Interestingly, The Panel also conducted two case studies of Councils facing particularly serious challenges. The Panel concluded after review that in *"both cases it appeared that a combination of substantial rate increases, increased borrowings, significant additional grant support and some reductions in levels of service could progressively achieve long term sustainability, but difficult decisions would be required."*[1]

Council has considered merging with some of its neighbours, such as Tenterfield Shire Council, however it was decided that such a step would not improve Council's position significantly, if at all. Factors operating against such a strategy include the tyranny of distance and the variations of demographics, community cohesion and geography existing in competition and conflict between neighbouring areas and the local government area. Council has already done significant work to demonstrate its capacity to meet the majority of the FFF criteria. This forms an additional factor against strategic merger with neighbouring LGA's, however boundary adjustments are recommended, as discussed elsewhere in this proposal, which will improve the scale and capacity of Council.

[1] Independent Local Government Review Panel Report Page 113.

Review of Strategic Scale and Capacity

(a) More robust revenue base and increased discretionary spending

Council believes that a robust revenue base and increased discretionary spending should be driven by the Own Source Revenue Ratio and an operational surplus. Council has taken significant steps to ensure that it is able to, in future, obtain an operational surplus through making tough decisions in respect of spending (internal savings) and affordably increasing revenue, for example by implementing a special rate variation and the additional drainage charge.

It is expected that, subject to a reassessment by TCORP, these improvements would have a positive impact on Council's assessment. In particular, Council notes the following:

> Council has pursued a significant rate variation[2] with a cumulative increase of 29.19% over three (3) years to improve its own source revenue ratio, reduce its reliance on grants, achieve an operating surplus position and increase expenditure on infrastructure assets. It should be noted that this significant increase effectively brought Council's rates to the regional average – strongly suggesting affordability (and therefore the capacity for increased own source revenue).[3]

Table 1.1 IPART's determination on Glen Innes Severn Council's special variation for 2014/15 to 2016/17

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income ($)	Permissible general income ($)
Adjusted notional income 30 June 2014				4,988,150
2014/15	11.21	11.21	559,537[a]	5,547,687
2015/16	10.02	22.35	555,878	6,103,565
2016/17	5.59	29.19	341,189	6,444,754

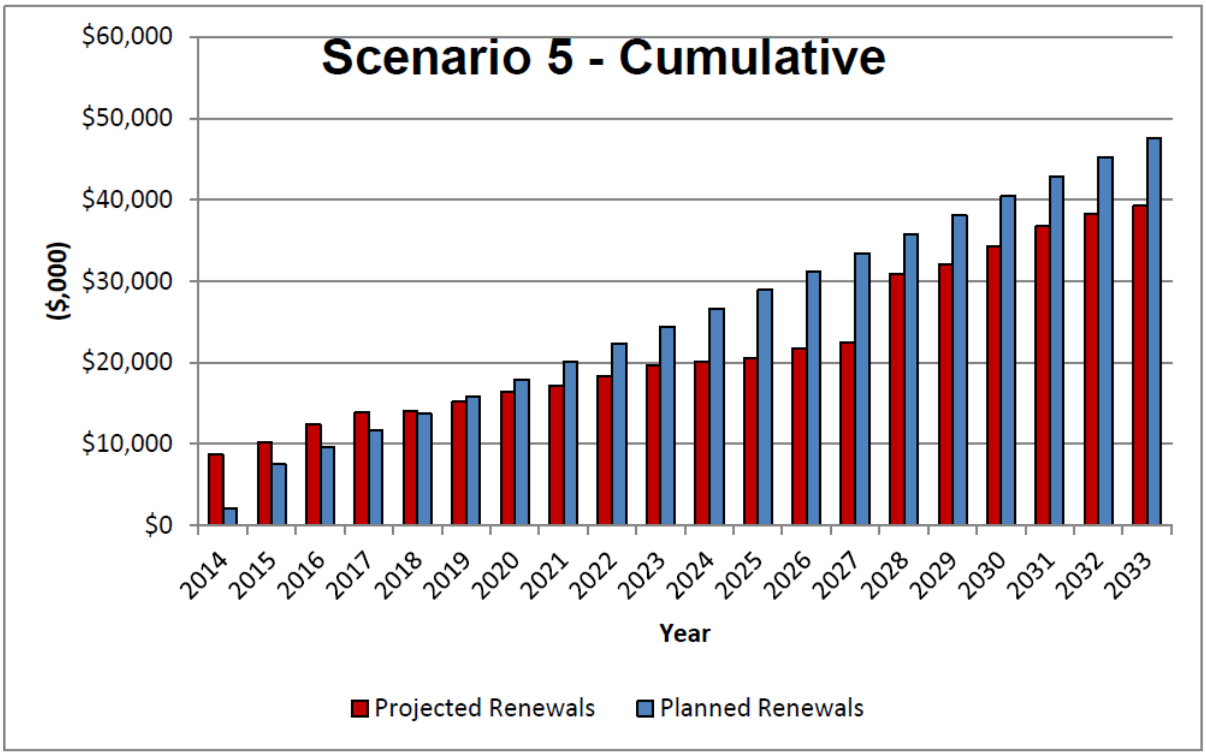
a The council also receives an extra $365 in its 2014/15 permissible general income as a prior year catch-up.
Source: Glen Innes Severn Council *Section 508A Application Form - Part A, 2014/15*, Worksheets 1 and 4.

> Council combined this Special Rates Variation with significant (but affordable) additional subsidised borrowings under the Local Infrastructure Renewal Scheme (LIRS) of $7.8 million. Under the approval conditions of these loans, they are to be spent solely on the infrastructure backlog. Council expects to address a significant portion of its backlog through use of these loans. In fact, a basic calculation suggests that $7.8 million will reduce the current estimated $24.412 million backlog by approximately

[2] Glen Innes Severn Council's application for a special variatIon for 2014/15 under section 508A of *Local Government Act 1993* was approved by the Independent Pricing and Regulatory Tribunal.
[3] IPART page 10 "However, we agree with the Council's analysis that the average farmland rates in the Local Government Area (LGA) are low compared to nearby councils and that the proposed rate rises will bring them into line with those Council areas whose residents have a similar capacity to pay."

30%. The loans are for the renewal of Council's Central Business District, rural local roads and addressing the entire backlog on Council's approximately 128 bridges and major culverts.

Council (as part of the SRV process) reviewed its LTFP and Asset Management Plans (AMP) (Roads) with specific emphasis on addressing the infrastructure backlog. Council also reviewed its road hierarchy and open spaces hierarchy to reduce services levels to an affordable level. The adopted AMP's (Roads) showed that the expenditure identified as affordable in the LTFP (reviewed in 2013/14) would largely address the road backlog by 2033 (with "planned" renewals expenditure being higher than "projected" renewals from 2019 – as is shown on the graph below). This expenditure on roads has been maintained in the latest LTFP and AMP's.



Council made the following tough decisions:

- Closing the Gum Tree Glen Long Day Care Centre in 2013 which resulted in ongoing annual savings of $230,000.
- Decreasing its General Fund contribution in 2013/14/15 to local events, festivals and tourism; only supporting activities which generate a proven and substantial return on Council's investment – resulting in an ongoing saving of approximately $200,000 pa.
- Pursued other revenue paths by increasing "other fees and charges" based on a "user pays" philosophy, and introducing a drainage charge on all rateable assessments within the catchment basins of Glen Innes, Emmaville and Deepwater, achieving a fully funded drainage system.

Council identified other internal savings including:

- Sale of properties not necessary for operational purposes, resulting in $99,000 pa operational savings or revenue increases through rates (3 out of the 5 have already been actioned).
- Stricter controls on Overtime and Time in Lieu resulting in $65,000 pa in saving.
- Non-replacement of staff on leave resulting in $50,000 pa saving.

- Reduction in “Acting in Higher Grades”: $24,000 pa saving.
- Cutting 10 vehicles from light fleet: $50,000 pa saving.
- Shutting down non-profitable freezer rooms: $20,000 pa saving.
- Streamlining and improving procurement and various savings on contracts: $90,000 pa saving.
- Removal of all positions that had not been filled for six (6) months from the organisational structure.
- Co-location of Aged and Disability Services: approximate operational efficiency gain of $250,000 pa.
- Installation of alternate energy sources (solar installations) saving $30,000 pa.
- Installation of more efficient electricity components at Beardy Pump Station saving $50,000 pa.
- Adjustment of operations at Glen Innes Water Treatment Plant saving $50,000 pa.
- Strategic analysis and replacement of water meters saving $100,000 pa in lost revenue.

Clearly Council has pursued a number of initiatives to improve its sustainability subsequent to the review by TCORP and the review by The Panel. <u>Therefore, although Council originally largely met the requirements of Scale and Capacity (and was not identified for a merger by The Panel) Council has now even further improved its sustainability.</u> [4]

Council notes that increased discretionary spending will result from obtaining an operating surplus sufficient to cover asset renewals and other non income statement cash flow items, such as loan repayments. The surplus above and beyond these amounts can then be put into addressing the infrastructure backlog, and where sustainable, increasing the asset base, for example converting toddlers pools with water entertainment features (which is currently underway in both Emmaville and Glen Innes). The ability to undertake discretionary spending in line with the Community Strategic Plan is discussed below.

(b) Scope to undertake new functions and major projects

New functions and major projects should only be undertaken in line with the identified needs of the community as enshrined within the Community Strategic Plan (CSP)).

The CSP (2013-23) indicates the community concerns, key goals and priorities as follows (drawn directly from survey results identified on page 20 and 21 of the plan);

[4] These improvements are discussed in depth in Council’s IPART Special Rate Variation Application (Part B) from page 18 onward.

Environmental Stewardship	Total
Improved roads	84
Water supply	35
More parking in the CBD	19
Bigger and better parks / gardens	10
Improved rural roads	6
Beautification of CBD	6

Community Living	Total
Bigger pool/indoor heated pool with gym and coffee shop	36
Updated/new hospital	24
More for young people to do	19
Bigger skate park	13
Train line	12
Improved theatre / cinema (3D)	11
Amusement parlour	9
Ten Pin Bowling	8
Public/transport to major cities	6
Better local transport for elderly / community	6
More and cleaner public toilets	6
Better Mental Health Services	6

Governance and Civic Leadership	Total
Cheaper rates	4
Consideration of rural and village areas	3
New Council	3

Prospering Community	Total
Shopping mall / more shops	81
Subway	18
More job opportunities	18
Big W	17
More health services	15
Planning and encouragement for business	10
K-Mart	9

The main items identified (those with a response of above 20) were therefore: improved roads (84), shopping mall/more shops (81), a bigger pool/indoor heating etc (36), water supply (35), and an updated/new hospital (24). Further, strategic issues identified subsequently, include the security of Government funding, an ageing and decreasing population and a relatively stagnant economy.

Road conditions, water supply and updating the swimming pool have been significant issues for the Council to address. However, Council has taken significant steps to address these concerns since they were identified in the original iteration of the CSP three years ago.

In particular, Council has increased annual capital works on roads by around 10% each year since 2013, sourced $7.8 million in loan funding for bridges and roads, commenced renovations ($1.5 million) on Council's aged swimming centre, sourced $970,000 in grant funding along with $2.8 million (purchase price) in loan funded works to complete an off-stream water storage facility that has addressed Glen Innes' long term water security.

Council has also lobbied for improvement in the local health services, along with meeting with developers to encourage the creation of more shopping facilities. Further efforts to improve the local economy included the upgrade of Grey Street (Central Business District) of $4million (including the renewal of tired infrastructure and beautification aspects).

Even though Council has committed significant effort and financial resources into pursuing the items identified in the CSP, further issues that will be dealt with as part of the FFF process include addressing the underlying deficit in annual spend on assets (Asset Renewal Ratio), the annual deficit on spending on asset maintenance (Asset Maintenance Ratio), the significant asset backlog, as well as increasing the population above 10,000 through sustainable growth.

(c) Ability to employ wider range of skilled staff

The following positions were affordably created in Council's organisational structure to improve Council's overall range of skills; some in response to the Office of Local Government's (OLG) "Better Practice Review" recommendations and others in respect of identified organisational requirements.

Position	*Recommended*	*Reason*
Management Accountant		Support for CFO to provide time for higher level advice, improve budgetary control particularly on capital works and organisational culture.
Manager of Risk and Compliance	Better Practice Review	Recently appointed in line with the recommendations of the Better Practice Review to oversee organisation risk and compliance.
Chief Financial Officer (CFO)	Independent Local Government Review Panel	Appointment of qualified Chief Financial Officer to improve long term financial planning and sustainability.
Purchasing and Procurement Officer		To create a centrally directed procurement function and improve Council's purchasing efficiency in respect of regulatory compliance and cost effectiveness.
Environmental Officer		To ensure environmental compliance and to ensure

		environmentally sustainable outcomes.
Strategic Support Officer (Assets)		Position added to improve Council's core asset management plans to advance and strengthen Council's asset management function, including planning, mapping and information gathering (asset condition).
Manager of Integrated Water and Sustainability Services		Created to ensure compliance, and improved performance of Water and Sewer operations, and long-term water reliability of Glen Innes.
Waste and Resource Recovery Coordinator		Co-ordinator of Council's waste management services (landfill etc) designed to improve compliance and performance of Council's waste services.
Water Project Officer (temporary)		To oversee capital spending/upgrade of the Water Security for Regions Project (off stream water storage solution) .

The above-mentioned positions demonstrate the ability of Council to appoint permanent and temporary specialists for project-based work .Other functions or staff positions that Council currently maintains that are worth mentioning include a Workplace Health and Safety Co-ordinator, Manager of Tourism and Events, Manager of Community Services, Youth Officer, Quarry Manager, Communication and Media Officer, three (3) accredited Building Surveyors and a Town Planner, as these are not all generally maintained in all medium sized "rural" based Councils.

Supporting and extending upon the wide range of skilled staff, are qualified, experienced and knowledgeable Executive Management Team members with the ability to provide excellent advice and high level information to the elected representatives to facilitate informed decision-making .

In summary, financial sustainability has always been a counter weight to the addition of staff, however, Council has been able to respond to external and internal pressure for the responsible addition of specialist staff where required. Council has provided specialised services to Councils within the region, such as Tenterfield Shire Council and Tamworth Regional Council. This has been in the form of certified Building Surveyors and Town Planners. Additionally, Council has a representative on the NSW Chapter of the Australian Building Surveyors Institute and regularly supports regional initiatives such as the Northern Inland Regional Waste Group. Council staff also regularly participate in the Regional Food Regulation group, and Northern Inland Water Managers group. It is argued that amalgamation will not significantly increase this ability. Council is, however, enthusiastic in regard to the ability to share specialist services in the proposed JO model.

(d) Knowledge, creativity and innovation

Council accepts that knowledge, creativity and innovation are essential components of proper management, both operational and strategic. These essentials provide for effective and efficient solutions to common or unique problems that arise. Council has the requisite organisational knowledge and creativity in-house to provide and implement innovative solutions to its problems. Examples of these include:

- Funding Council's LIRS loan of $4million (which will address the total infrastructure backlog of bridges, which is one of the community's largest infrastructure concerns) with an SRV. This provided a very cost-effective manner to address a significant backlog (20% of works) well below the cost of CPI. Further, these funds were prudently drawn and invested prior to being spent, providing Council with additional revenue.

- Council identified significant cost savings as part of the SRV process (these are identified above under **(a) More robust revenue base and increased discretionary spending).** For example, this included the cessation of Councils long day care service (saving $230,000 per annum) and co-locating Council's aged and disability services into the long day care building (resulting in $250,000 per annum operational efficiencies). The cost of the capital works to renovate the building was $150,000, whereas the cheapest previous option would have cost $900,000 and a specifically designed building would have cost over $3million. The co-location of these services had been on the drawing board since the mid/late 1980's.

- Off stream Storage Solution – The Glen Innes Severn Council (and the former Glen Innes Municipal Council) had a significant water security concern for many decades. The major water source and existing water storage facility, the shallow Beardy Waters Weir, does not provide sufficient security and Council, in periods of drought, had to implement stringent water restrictions from early on. The inability of Council to guarantee a consistent water supply had a negative effect on Glen Innes' ability to attract water intensive industries.

- Council has acted innovatively by purchasing a quarry business to create a significant off-stream and affordable water storage for the Glen Innes community, who had been fully reliant on the flow in the Beardy Waters for the town's water supply, as well as providing in Council's long term needs for gravel and road base materials. Council obtained an almost immediate additional 200 mega-litres of water storage capacity in the southern pit (compared with the holding capacity of the weir in the Beardy Waters of around 480 mega-litres), with the potential to increase this off-stream storage with another additional 600 mega-litres of low evaporation storage (effectively more than double the existing water capacity) in the northern pit within the foreseeable future. This was achieved at a fraction of the cost of the other augmentation options that were investigated earlier.

- Volute Dehydrator (Technical paper: Water Industry Operators Association) – Council constructed a volute dehydrator for use at its sewer treatment works. A Technical Paper was presented by the then responsible Manager, Keith Appleby, to the Water Industry Operations Association in this regard. This project was in response to significant issues that had become apparent in the relatively new treatment facility, that had not been addressed in the original design. Council was able to design and implement a novel solution that was of similar capital cost to the standard treatment recommended by NSW Public Works (hard stand and contracted centrifuge), but with an ongoing cost 90% less than the standard solution, saving Council approximately $130,000 per year. This demonstrates that Council has the ability to provide leading edge technical services to the community on significant projects.

- Nine Mile Bridge – cost savings $400,000. The original scope of works (prepared by external Consultants Pitt and Sherry) identified that the expected renewal cost of the Nine Mile bridge over the Severn River would be in the order of $700,000. Council reviewed the scope of the works and identified an alternative replacement technique, being a Stress Laminated Timber Bridge at a cost of $300,000, without affecting the important "whole of life" asset management consideration. This methodology had not been previously used in the LGA. This shows Council's willingness to investigate new and cost effective alternatives to significant infrastructure renewal challenges.

- Wearing Course – Strathbogie Road. A wearing course (clay mixture) had been applied over a gravel road that was extremely rough and the source of numerous complaints such as tyre punctures etc. This was an innovative method which worked very successfully and has resulted in a reduced incidence of complaints since its application. It also resulted in a lower frequency of maintenance grading.

- Council is continually implementing the most cost effective renewal strategies on the local road networks under its control. These methodologies involve *in situ* recycling of pavement materials, incorporating new components where required to increase strength, prevent moisture ingress through a conventional seal, and also combining 1% bitumen emulsion into the actual pavement to prevent moisture damage through capillary action. This technique enables the works to be completed within a much shorter timeframe. As an example, a full street block was renewed recently during a single weekend, at 70% of the previously estimated budget. The recycled pavement methodology provides greater expected service life compared to the former technique of replacing existing pavement material with new.

(e) Advanced skills in strategic planning and policy development

The Panel's final report (October 2013) and the Local Government Infrastructure Audit (June 2013) both identified that Council's Infrastructure Management was weak (considering Council's infrastructure funding position, infrastructure status, infrastructure management and infrastructure financial planning at the time).

Council's AMP's (road assets), as well as associated service levels were subsequently reviewed. This has substantially improved its funding position associated with these plans, due to the approval of the SRV and $7.8million in LIRS funding. This improved position will have a significant effect on any future assessment. However, the development of advanced asset management plans remains a core focus of Council and has driven the creation of a Strategic Support Officer (Assets) to provide additional assistance in updating these plans. The improvement of the asset management plans from core to advanced will be an integral part of Council's Action Plan (AP) to become Fit For the Future.

The review by TCORP of the 2012/13 LTFP, and subsequently by IPART~~,~~ of the 2013/14 LTFP (related to Council's SRV-application), indicated that Council was in a sound financial position, with a rating of moderate and neutral being assigned to Council by TCORP. It should be noted that both TCORP and IPART had agreed that the assumptions on which the LTFPs were based, were reasonable. However, even though the basis upon which the former LTFP was prepared, was accepted as being reasonable, Council acknowledges that it needs to focus on meeting the seven (7) benchmarks associated with the FFF program and this will form an integral part of Council's Action Plan.

Since amalgamation of the former Glen Innes Municipal and Severn Shire Councils in 2004, a comprehensive policy register was developed, using the Office of Local Government's "Better Practices Checklist" as a guideline, with over 150 policies having been developed. These policies, with their associated procedure documents, are reviewed and updated on a regular basis.

(f) Effective regional collaboration

Council is enthusiastic about the recommendations of The Panel in respect of a JO arrangement between Councils in the New England Region, with Armidale as a **strengthened** Regional Centre. There has unfortunately been a historical absence in the New England region regarding regional co-operation between Councils. The non-existence of a Regional Organisation of Councils for many years bears testament to this. However, Council can identify the following examples of regional co-operation in which Council has been involved:

- Recent in-principle agreement to the formation of a ROC in the New England Region (with the actual establishment date of 27 March 2015);
- Application by the combined Councils of the New England JO area to the State Government for the JO Pilot program;
- Waste and Recycling Contracts – Northern Inland Regional Waste Group;
- Northern Inland Water Management Group;
- Northern Inland Regional Procurement Group;
- Noxious Weeds – liaison and collaboration with New England Weeds Authority;
- Local Land Services – grant funding for vegetation management;
- Sharing of a graffiti removal machine (hosted by Inverell);
- North West Weight of Loads Committee;
- Arts North West – Council provides accommodation and funding for this Arts organisation servicing the New England North West Region;
- New England High Country – policy and planning in conjunction with Destination NSW and Inland NSW Tourism (Walcha, Uralla, Armidale Dumaresq, Guyra, Tenterfield and Glen Innes Severn Council all participate). The group was formed as part of the Destination NSW 2020 vision;
- Community Services – Council has a strong regional focus in respect of its community services function and has in conjunction with Guyra and Gunnedah Shire Councils applied for grant funding on a shared basis (through use of a Memorandum of Understanding). The Glen Innes Severn Council has historically been the lead agency in this regard;
- Combined bridge renewal projects (with Guyra Shire Council) – Pinkett Road (Sara River) and Mount Mitchell Road (Sara River).

(g) Credibility for more effective advocacy

Council recognises the importance of providing a credible voice for its community and the various interest groups that can further the social, economic and community goals of the region. Council has been involved with a number of groups and has provided support for these groups where possible. Examples of this advocacy include:

- The implementation of a community transport initiative that caters for citizens from lower socio-economic circumstances and people with disabilities to be transported to the CBD to do shopping, visit the community centre, doctors' surgeries, library etc.
- Formation of the New England High Country group (although identified as part of Destination NSW) was driven by the Council and first meetings were held in Glen Innes.

- Formation of Business In Glen (BIG), a chamber of commerce for the Glen Innes Severn area driven by the Glen Innes Severn Council, providing a venue for businesses to co-operate and advocate on their own behalf.
- "RailTrail Group" – collaboration with Tenterfield and Guyra in respect of the northern inland rail trail – to lobby the state government for administrative and financial support to open up the de-commissioned northern railway line. If opened up, it would provide the longest rail trail in the Southern Hemisphere.
- "Countryway" is a tourist route from Rockhampton Post Office to Sydney Post Office. Council is the only NSW Council working with the Countryway group to recognise the importance of the New England Highway and in campaigning for the recognition of the New England Highway as an alternative transport route from Sydney to Southern Queensland.
- Community Services – due to Council's significant Aboriginal, Aged and Disability Services, it is in a strong position to provide advocacy for individuals who are in a recognised special needs or disadvantaged group, in particular:
    - Aboriginal & Torres Strait Islanders;
    - people from culturally and linguistically diverse backgrounds;
    - people with dementia;
    - people with a mental illness;
    - people living in a remote or isolated area;
    - people who are financially or socially disadvantaged;
    - people with disabilities;
    - veterans;
    - people who are homeless or at risk of being homeless; and
    - care leavers who have experienced institutional care, such as orphans and child migrants.

(h) Capable partner for State and Federal agencies

Council understands and agrees with the need for Local Government to be a capable partner for State and Federal Agencies. The funding provided to Local Government from these spheres of government is significant; with budget constraints growing at State, Federal and Local Government levels. Value for money and productivity are therefore key concerns .Council has the necessary structures, systems and resources in place and available to ensure that the use and expenditure of public funds are closely scrutinised and controlled.

The following grant approvals and projects undertaken by Council indicate that, in the majority of cases in a competitive environment, Council has been very successful in obtaining and maximising value for money when expending grant revenue:

- Approval of Local Infrastructure Renewal Scheme Funding of $7.8million – TCORP/State Government;
- Approval of Water Funding $970,000 – Infrastructure New South Wales – Restart Water Funding;
- Obtaining Section 60 Approval for Deepwater Water Treatment Plant;
- Complying with the Drinking Water Quality Framework – NSW Office of Water/NSW Health
- Approval of significant special rate variation – IPART;

- Approval of Grant Funding for Australia Asia Flight Training School (Regional Development Australia Fund $500,000 and NSW Regional Industries Investment Fund $1.7million);
- Roadside Vegetation Grant Funding (one of two LGA's to receive full $50,00 allocation – due to completion of a roadside vegetation management plan) – Local Government Shires Association on behalf of Environmental Trust;
- Roadside Vegetation Grant funding extension - $140,000 through Local Land Services as a result of the success of the above project;
- Community Recycling Centre $238,000 – under the "Waste Less Recycle More" grant – EPA administering funding through Environmental Trust;.
- RMS Grant Funding – Network and Safety Fund – Grey Street Pedestrian Facilities $240,000 in 2014/15, $110,000 in 2013/14 and $67,100 in 2014/15;
- Significant recurring grant funding (over $4million in Aged and Disability Services grant funding), e.g. for HCP02, HACC, NRCP, NRA, AGPA, FLEXRES programs.

(i) Resources to cope with complex and unexpected change

The ability to resource (or cope) with **complex and unexpected change** will always be impacted by the nature of the particular event. However, past events are generally a good indicator of the ability of Council to cope with complex and unexpected change. Relatively recent examples of events which have required necessary resources to deal with unforeseen circumstances include the following:

- The resignation of the Director of Infrastructure Services (July 2014) during one of the largest capital works years in recent history, perhaps ever, which included a renewal of the Central Business District was fraught with difficulties including community anxiety in respect of possible delays. This project was completed on time and on budget and the capital works this year are on target for substantial completion;

- Council has had the financial resources to employ project managers for complex and one-off projects (where needed) for example bridge ($4million under LIRS) and water ($970,000) funding grants;

- Council has added significant capital works to its program, delivering results such as the 7km AAFT water and sewer pipelines (10% under budget), on time, designed in-house, at half of the industry unit rate.

- Flood damage to roads and its effect on capital works program: Council has experienced significant floods during the last few years which required quite significant changes to the works programs as follows:

Flood Event (Date)	Quantum of Damages
May 2009	$1,964,851.00
Dec 2010 to Jan 2011	$1,160,474.99
Jun 2011	$66,205.00
Nov 2011	$332,000.00
Jan 2013	$234,000.00

- The implementation of the new Integrated Planning and Reporting Framework was a significant event that required adjustment in Council's way of thinking and planning. Council's compliance IP&RF

documents [the original LTFP, AMPs, DP, OP, Workforce Plan (WP), CSP and Community Engagement Strategy (CES)] were adopted on 23 June 2011. Council volunteered to be in Group 2, one year ahead of what was required (Council was placed in Group 3 by the OLG);

- Council had a meeting with the Grants Commission (GC) of NSW (which body distributes the NSW portion of the FAGs) on 21 October 2013. Council was advised that grant increases were unlikely and it was suggested for Council to consider alternative funding sources. Council reviewed its LTFP by November, identifying the need for an SRV. The LTFP was adopted at the November 2013 Ordinary Meeting and Council applied for an SRV in February 2014.

- Council was able to develop its FFF Proposal without any assistance from the OLG's panel of consultants appointed to assist Councils in this regard, or any other "external" consultant, whilst still pursuing its "standard" tasks e.g. Operational Plan and Budget developments consecutively.

The above examples indicate situations where the *status quo* was challenged and Council was able to identify, cope with and resource unexpected change.

In the past number of financial years, Council has also budgeted for **unplanned events** in both its restricted funds as well as in the operational plan, for example:

- Council has included $150,000 as an operational contingency for approval by the General Manager for works which arise as unexpected events. Council's LTFP also makes provision for contingency funding;

- Council has restricted funds for redundancies on top of the general staff employee leave entitlement reserve for the possible loss of grant funding associated with the changes in Aged and Disability funding (the move from block grant funding to specific consumer directed care);

- Due to the historical inability to entirely cash back depreciation and to spend the 1:1 for asset renewal and asset maintenance, Council also has restricted funds in an infrastructure replacement reserve to cover unforseen events such as large asset failures.

The ability to make provision for these unexpected events is because of Council's maintained focus on employing quality staff and strong financial management over a number of years. It is expected that improving Council's Own Source Revenue Ratio and obtaining an operating surplus will further assist Council in dealing with unexpected change. These particular goals will form part of Council's Action Plan to become (even more) Fit For the Future.

(j) High quality political and managerial leadership

High quality political and managerial leadership are essential for a well-managed and successful Council; the co-existence of which ensures Council achieving the goals and expectations of the community.

The Glen Innes Severn Council has been fortunate after amalgamation to have had a strong Council (**high quality political leadership)** willing to make difficult and at times very unpopular decisions, which were for the greater good.

Examples of these decisions are listed below:

2011/12 Financial Year

- Purchase of the off-stream water storage solution for $2.8million, providing Council with significant additional water storage;

- Purchase of Glen Innes Aggregates for $1million (an operating hard rock quarry purchased as part of the off-stream water storage solution), with the potential of achieving profits in the order of $300,000 per annum.

2012/13 Financial Year

- Closure of the unprofitable long day care service resulting in $230,000 pa in operational savings, all of which have been spent on capital road and maintenance work;

- Introduction of a Drainage Charge of $87 on all rateable assessments within the Glen Innes, Deepwater and Emmaville drainage basins which resulted in a fully depreciation costs funded drainage system – which required significant renewal.

2013/14 Financial Year

- Renewal of a tired Glen Innes Central Business District for a cost of $4million;

- Application for significant special rate variation of 29.19%;

- A number of other unpopular savings initiatives (including the sale of a number of Council properties which were costing Council money to maintain and increased Council's building backlog).

Council has also been fortunate to have had excellent senior management direction since the amalgamation of the former Glen Innes Municipal and Severn Shire Councils in 2004: constituting **high quality managerial leadership**.

A report was prepared for the March 2014 Ordinary Meeting of Council dealing primarily with the financial indicators associated with the pre and post amalgamation Councils and clearly showing Council's progress since 2004.

An excerpt from this report (from the Executive Summary) indicates the following:

> *The former GIMC and SSC were amalgamated in 2004 to improve financial sustainability by amalgamating a 'donut' council with a 'town' council. The purpose of this report is to review the financial indicators of all three (3) Councils (GIMC, SSC and GISC) since 1999 to identify whether GISC has:*
>
> *a. Benefited from this amalgamation, and*
>
> *b. Whether it has been effectively managed post amalgamation.*
>
> *It should be noted that only financial indicators have been considered in this report. No non-monetary achievements have been addressed.*

The financial indicators and Key Performance Indicators (KPIs) have improved considerably from pre-amalgamation in 1999 to 2013. These indicators, along with the independent review by the Treasury Corporation of NSW (TCORP) in March 2013, confirm that GISC has been managed effectively.

An analysis of audited financial statements indicates improvement in GISC's financial position across almost all key indicators, when compared to the former Councils:

***Operating Position:** The combined GIMC and SSC figures indicate an average combined loss of ($1,757,000) over the years 1999 to 2004. It can be compared with an average loss for GISC of ($973,000); which represents an improvement of $784,000 per annum.*

***Operating Position of Council as a proportion of Total Revenues:** The average combined operating position of the former Councils (SSC and GIMC) was -12.80%, with the new GISC having an average ratio of -4.72%; which should be viewed as being a significant improvement.*

***Unrestricted Current Ratio:** GIMC and SSC had an unrestricted current ratio of 2 or less in the years leading up to amalgamation. GISC's unrestricted current ratio is now above 4.5; which should be viewed as another significant improvement.*

***Debt Service Ratio:** GIMC's Debt Service Ratio peaked at 100% in 2003. In contrast, GISC has a Debt Service Ratio of 7.8%, which compares very favourably with the TCorp average.*

***Affordability of Borrowings:** GISC has taken the middle ground in respect of borrowing and borrowing costs, with borrowing costs as a proportion of total revenue remaining reasonably static at less than 4%. This can be compared with the lower borrowing cost percentage of the SSC (combined with lower asset expenditure) and a higher borrowing cost percentage of GIMC, peaking at over 12% in 2003 (combined once again with lower asset expenditure). The increase in total liabilities as a proportion of revenue has been reasonably static, and is comparable with both the GIMC and SSC.*

***Rates Coverage Ratio:** The Rates Coverage Ratio is similar for all three (3) Councils.*

***Rates and Charges Outstanding Ratio:** GISC's Rates and Charges Outstanding Ratio is now below 4%, compared with SSC's ratio of above 16% in 2001 and GIMC's ratio of around 11% in 1999; an outstanding improvement.*

***Capital Expenditure as a Proportion of Total Revenue:** The average Capital Expenditure as a Proportion of Total Revenue for GISC is 22.26%, an improvement of 4.11% compared to the combined GIMC and SSC figures of 18.15%. This equates to an annual increase of $986,400 in capital expenditure, leading to improved community assets.*

***Capital Expenditure on Roads, Bridges and Footpaths as a Proportion of Total Revenue:** GISC has achieved 6.87% on this indicator, an improvement of 2.15% compared to the combined GIMC and SSC average of 4.72% for the years from 2001 to 2005. This equates to an annual increase of $516,000 on roads, bridges and footpaths, which has helped to decrease the infrastructure backlog associated with these assets.*

The above-mentioned information indicates that GISC has performed well after its amalgamation.

Council was also able to develop its FFF Proposal without any assistance from the OLG's panel of consultants appointed for this purpose, or any other "external" consultant.

It is relevant to note that a number of the more significant community concerns identified in the Community Strategic Plan 2013-23 have already been addressed. For a more detailed discussion, please refer to the subheading **Scope to undertake new functions and major projects** above.

(k) Other items Council considered as part of its consideration of Scale and Capacity

- The Glen Innes Severn Council LGA population estimate is expected to decrease from 8,965 to 8,900 by 2031 in the Panel's final report. Council would like to note that due to the anticipated development of the Australia Asia Flight Training School (with an expectation of 600 students and 200 paid positions after four (4) stages of development), three (3) approved Wind Farm developments, and ongoing mining exploration in the area, Council is positive in respect of its population growth. Council suggests that it is reasonable to **expect an increase in population from the 8,965 identified to 10,000 by 2031**. This is an 11.6% increase over 16 years, which equates to an increase of approximately 0.6% per annum. It is appreciated that this is in contradiction with the current trend; however, the majority of this increase could occur rather quickly when considering the scale of possible developments.

- As part of Council's overall consideration of its strategic and financial scale and capacity, Council reviewed its **Water and Sewer Funds** and how they interact and benefit the General Fund. It became clear that the operating position of both Water and Sewer Funds and the ability to pay dividends from these funds will improve Council's General Fund operating position by more than $170,000pa. These funds also contribute to the administration overheads of the General Fund, which would largely be borne by the General Fund if removed.

  Council losing its water and sewerage functions would have a significant negative impact on its scale and capacity. This Council, as would be the accounting practice throughout the industry, is distributing administration overhead costs (e.g. payroll, administration, human resources, finance costs etc.) to all the various functions it performs – including the water and sewerage functions.

  If an organisation loses a function, it will generally result in some savings. However, because of the nature of the Water and Sewer Funds, it is not expected that the loss of these funds will result in a full saving of administration overheads. Therefore, a portion of the more than $700,000 in administration costs will need to be borne by the General Fund. It is estimated that this would amount to approximately $500,000pa.

  In addition to the above, the FFF local government reform initiative requires Council to look at innovative ways to raise revenue. A significant part of Council's current Action Plan is to pay dividends across from the Water and Sewer Funds; which strategy has already been approved by Council. However, the loss of these funds to a regional body of some description may negatively impact on the dividends paid to Council as other, perhaps less efficient funds (e.g. Tenterfield Shire Council's Water and Sewer Funds) will be combined and will first need to be subsidised prior to a dividend being paid. As was mentioned above, the total dividends which can currently be paid from both these funds to increase Council's revenue are in the order of $170,000 pa.

  A further loss would be a Debt Service Charge, which is a guarantee fee that Council is intending to charge to the Water and Sewer Funds – in accordance with best practice guidelines. Council intends to include this action step as part of its FFF Proposal; which will equate to approximately $130,000 pa over the next ten (10) years.

Therefore, as a total headline figure, the possible loss of internal revenue as a result of Council losing its Water and Sewer functions could equate to $800,000 pa. To put this loss into context, it equates to 62% of all Council's current operational maintenance on roads, bridges, footpaths and other road infrastructure assets.

The Sewer Fund has also been achieving operating profits, combined with strong asset renewal and maintenance ratios and is particularly strong with respect to cash reserves – exceeding the infrastructure backlog identified in the fund. The position of the Water Fund is improving, and there is no reason to expect that it will not be able to meet those ratios identified as sustainable by The Panel; particularly given the operating surplus achieved last year, combined with the projected surpluses into the future.

Based on the information above, it is clear that the loss of the Water and Sewer Funds would have considerable impact on Council's overall financial position. However, it also indicates that the Water and Sewer Funds strengthen Council's overall scale and capacity. A contribution of almost $700,000 in administration overheads assists Council in employing specialised staff and providing administrative scale which would otherwise be unaffordable. Other examples of how the Water and Sewer Funds benefit Council's strategic scale and capacity have been included towards the end of the Proposal. Please refer to item 2.4.1 Water and Sewer Utility Performance and Strategy specific modelling item (F) for further information in this regard.

- As part of Council's consideration of strategic scale and capacity, Council has adopted a resolution (Resolution 3.12/14) to investigate the possibility of **extending Council's existing boundaries in line with clearly identified communities of interest**. These areas include Ben Lomond, Llangothlin, Kingsland, Kings Plains, Swanvale (part) and the remainder of the Deepwater rural locality area, as visually depicted on the attached map (please see Annexure 1).

- Further, Council believes that a prerequisite for the proposed Joint Organisation (JO) model to be successful requires the establishment of strong regional centres, commensurate with the recommendation of the Panel. In this regard, it is Council's strong suggestion for the Armidale-Dumaresq and Guyra Shire Councils to merge. This step will create an ideal opportunity for the majority of the above-mentioned proposed boundary adjustments to Council's south and west to be pursued. This scenario will also facilitate the Tingha community to be added to Inverell Shire Council's area of jurisdiction – again adhering to the community of interest principle.

  Based on preliminary estimates, a boundary adjustment incorporating the identified areas would result in additional revenue of $1.165million with additional expenditure of $1.087million. Therefore, the additional rating income would largely be offset by expenditure, however, the increase is expected to provide significant additional scale and capacity to Council's road works and thereby provide the ability to access more specialised plant and improve plant usage; thereby reducing holding and other fixed costs.

Further benefits would be an estimated increase in population of around 700 individuals, improving Council's Own Source Revenue Ratio and improving Council's Asset Maintenance and Asset Renewal Ratios (as the road maintenance and capital works would be fully funded). The proposed boundary adjustments are discussed in more detail as part of "Strategy Specific Modelling (item C) towards the end of this Proposal.

- Council concurs with its overall reliance on grant revenue – in particular Roads to Recovery and the Financial Assistance Grant funding. However, Council is 'out of the ordinary' in this regard given the large proportion of grant revenue associated with its Community Services Functions ($3.6 million). When one considers the methodology used by the Panel[5], which considers grant revenue as a proportion of total revenue for 2011-12, setting a benchmark of >40% as highly dependent and >50% as very highly dependent, this funding skews Council's overall position. **Considering the purpose of this grant funding, to provide Aged and Disability services on a service basis, it can also be considered a payment for services rendered (or a fee for service); particularly when one considers the new individualised packages funding methodology.** Once excluded from the calculation, Council is not highly dependent on grant revenue. The calculation below indicates the significant variance associated with this grant revenue, which would not be applicable to the majority of NSW Councils.

2013/14 Audited Financial Status	('000)	%
Total Revenue	24,744	
Grant funding (Capital and Operational)	11,677	
Ratio: Including Community Services		**47.19%**
Exclude: Community Services Grant funding	3,607	
Total Grant Revenue Excluding Grant Funding Received as fee for service	8,070	
	21,137	
Ratio: Excluding Community Services		**38.18%**

This grant revenue and the treatment thereof, also has a significant effect on Council's Own Source Revenue Ratio – which is considered further in Council's response on this particular indicator.

- The second report titled "Future Directions for NSW Local Government: Twenty Essential Steps" (released in April 2013) prepared by The Panel, identified a **possible merger between Tenterfield Shire and Glen Innes Severn Council** as a preferred option. Council considered this matter at its May 2013 Ordinary Meeting, where an analysis of a potential merger was presented to Council.

[5] See page 114 Table 11 "Options for Non-Metropolitan Councils".

A summary of 'ratings' for Glen Innes Severn and Tenterfield Shire Councils in aforementioned report indicated the following:

Council	*Current FSR*	*FSR Outlook*	*Pop. Change 2006-11*	*Pop. Change 2011-36*	*Projected Pop. 2036*	*Rate Base*	*Merger Potential*	*Options*
Glen Innes Severn	Moderate	Neutral	Marginal	Decline	8,000		Medium	New England North CC, **merge with Tenterfield**
Tenterfield Shire	Weak	Negative	Marginal	Marginal	6,700	Low	Medium	New England North CC, **merge with Glen Innes Severn**

Potential Problems:

The amalgamation between Tenterfield and Glen Innes Severn would significantly increase the dollar value of assets per person, therefore is likely to significantly deteriorate Glen Innes Severn Council's position. Tenterfield Shire Council's assets are at $550.123 million compared with this Council's value of $308.539 million. A comparison is depicted below:

Council	Population	Total Assets	Backlog	Required Annual Maintenance	Current Annual Maintenance
Glen Innes Severn	8,656 (6,135 town)	$308,539 million	$29,396 million	$3,521 million	$2,215 million
Tenterfield Shire	6,811 (3,100 town)	$550,123 million	$18,1 million	$6,025 million	$3,756 million

The amalgamation of two water funds would equal less revenue as both Councils rely on the "less than 4,000 connection exemption"; meaning that the Councils can charge more than 25% as an availability charge (or annual fee). It is expected that the merging of these two water services would reduce revenue by $500,000 pa.

The main centres of Glen Innes and Tenterfield are approximately 100km apart from each other, therefore, efficiency gains would be hard to achieve as one would not be able to rationalise offices.

Tenterfield and Glen Innes Severn do not share any significant identifiable communities of interest. Tenterfield, as a border town, has more in common with its neighbours in Queensland, and with Lismore to its east, due to direct connecting roads, health services, electoral boundaries and area demographics.

Potential Benefits:

An increase in the expertise level would be possible, but would be limited by sheer distance between the centres, for example maintaining bridge and concrete crews.
Cost savings would have been possible due to reductions in staff, but would be limited due to the 100km distance between centres, hindering the efficient sharing of staff.

The sharing of large plant and specialised equipment; however, due to the distance and the fact that there were very limited connecting roads other than the highway, it would have been difficult to combine works crews efficiently. Due to the distance involved, it would have been necessary to maintain an office and depot in Tenterfield – offsetting the ability to integrate teams.

The above-mentioned arguments were put to The Panel in Council's submission; resulting in **the Panel's subsequent and final report where both Glen Innes Severn and Tenterfield Councils were identified as "stand alone" entities**.

1.3 COUNCIL'S CURRENT POSITION

Glen Innes Severn Council Local Government Area encompasses an area of approximately 5,486.9 km2 with a population of 8,881; the majority of the population is located within the township of Glen Innes, and the villages of Emmaville, Deepwater, Red Range and Glencoe. Glen Innes is located at the intersection of the New England Highway and the Gwydir Highway.

Glen Innes is widely known as the 'Celtic Capital' of Australia as it is home to the Australian Standing Stones, an internationally and nationally recognised monument, as well as to the annual successful Celtic Festival. The local economy is based on the livestock, agriculture, honey production, tourism and service sectors. There is also sapphire mining and mining exploration in the area. Recent developments include promising economic ventures, for example the approval of three (3) wind farms and a significant flight training school (the Australia Asia Flight Training School), for which construction is expected to commence before April 2015, and which will cater for 600 students when the four (4) stages of the school are completed.

The population statistics are consistent with a rural community, in particular in respect of an ageing population, with 30% of the population aged above 60 and a relatively static position over the last five years (decrease of 0.4%). The Socio-Economic Index is low at 20, with an average household income of $30,324, which is lower than the LGA Group average of $34,729. These comprise a significant challenge to the community, in particular reversing the population trend and increasing the relative affluence of the community by encouraging economic development. Council's Community Strategic Plan 2013-2023 provides for a number of strategic objectives to address this issue. In particular, this is reflected in Council's aim to be a caring, and inclusive community with excellent health services; sport and recreation facilities; cultural facilities and amenities.

Our Council Vision is "To lead a confident, welcoming and progressive community that values its health, heritage and environment" and our Community Vision is "Our community will be confident, welcoming, and progressive – valuing our health, heritage and environment."

Please refer to Council's Community Strategic Plan page 11 – 13 for a complete discussion on Council's particular community characteristics.

The Community Strategic Plan (2013-23) indicates the Community concerns, key goals and priorities as follows (drawn directly from survey results identified on page 20 and 21 of the Plan) where 8.8% of the population gave responses to the community survey conducted):

Environmental Stewardship	Total
Improved roads	84
Water supply	35
More parking in the CBD	19
Bigger and better parks / gardens	10
Improved rural roads	6
Beautification of CBD	6

Community Living	Total
Bigger pool/indoor heated pool with gym and coffee shop	36
Updated/new hospital	24
More for young people to do	19
Bigger skate park	13
Train line	12
Improved theatre / cinema (3D)	11
Amusement parlour	9
Ten Pin Bowling	8
Public/transport to major cities	6
Better local transport for elderly / community	6
More and cleaner public toilets	6
Better Mental Health Services	6

Governance and Civic Leadership	Total
Cheaper rates	4
Consideration of rural and village areas	3
New Council	3

Prospering Community	Total
Shopping mall / more shops	81
Subway	18
More job opportunities	18
Big W	17
More health services	15
Planning and encouragement for business	10
K-Mart	9

The main items identified (those with a response of above 20) were shopping mall/more shops (81), improved roads (84), water supply (35), a bigger pool/indoor heating etc (36) and an updated/new hospital (24). Further, strategic issues identified subsequently, include the security of Government funding, an ageing and decreasing population and a relatively stagnant economy.

Road conditions, water supply and updating the swimming pool and hospital have been significant issues for the Council to address. However, Council has taken significant steps to address these concerns since they were identified in the original iteration of the CSP three years ago.

In particular, Council has increased annual capital works on roads by 10%, sourced $7.8 million in loan funding for bridges and roads, and has adopted best practice techniques for road rehabilitation, resulting in a significantly lower whole of life cost of the road network. Council has also commenced renovations ($1.5 million) on Council's aged swimming centre, sourced $970,000 in grant funding along with over $3 million in loan funded works to complete an off-stream water storage facility that has now addressed the water security issue, with Glen Innes meeting the NSW State Government "drought proof" criteria (the 5/10/10 rule).

Council has also lobbied for improvement in local medical services along with meeting with developers to encourage the creation of more shopping facilities. Further efforts to improve the local economy included an overhaul of Grey Street (in the Central Business District) of $4million.

Even though Council has thrown significant effort and financial resources into pursuing the items identified in the CSP, further issues that need to be dealt with as part of the Fit For The Future process include addressing the underlying deficit in annual spend on assets (Asset Renewal Ratio), the annual deficit on spending on asset maintenance (Asset Maintenance Ratio), the significant asset backlog (24.412 million of $202.387 WDV) and the decrease in population, and increasing the population above 10,000 through sustainable growth.

Glen Innes Severn Council – Relevant Statistics

LOCAL POPULATION[6]	LGA	GROUP AVG	MEASURE
Population	8,881		
Five year population change	-0.4	1.7	(%)
Population aged 19 or less	23.9	25.9	(%)
Population aged between 20 & 59	46.0	47.4	(%)
Population aged above 60	30.1	26.7	(%)
Aboriginal & Torres Strait Islanders	5.7	7.9	(%)
Language Spoken Other than English	2.2	2.6	(%)
Socio-Economic Index Rank	20	n/a	(1 low, 152 High)
LOCAL ECONOMY[7]	**LGA**	**GROUP AVG**	**MEASURE**
SALM Unemployment Rate	8.4	5.5	(%)
Avg Taxable Income	30,324	34,729	($)
Avg Household Family Size	2.8	2.9	(No.)
Largest Industry Employer	Agriculture, forestry & fishing		
Active Businesses in LGA	1,140	851	(No.)
PUBLIC FACILITIES[8]	**LGA**	**GROUP AVG**	**MEASURE**
Public Swimming Pools	2	2	(No.)
Public Halls	5	7	(No.)
Public Libraries	4	2	(No.)
Open Public Space	117	151	(ha)
Total Road Length	1,158.3	1,606.1	(km)
Access to Internet at Home	59.3	61.4	(%)
COUNCIL[9]	**LGA**	**GROUP AVG**	**MEASURE**
Councillors	7	9	(No.)
Population per Councillor	1,269	835	(No.)
Equivalent Full Time Staff (EFT)	128	112	(No.)
2012/13 Revenue	23,865	23,296	($'000)
2012/13 Expenses	24,728	22,483	($'000)
Residential Pensioner Rebates	33	26	(%)
Population Density	1.62	1.81	(residents per km^2)

[6] Data Sourced from OLG 2012/13 Comparative information.
[7] Data Sourced from OLG 2012/13 Comparative information.
[8] Data Sourced from OLG 2012/13 Comparative information.
[9] Data Sourced from OLG 2012/13 Comparative information.

COUNCIL FINANCES[10]	LGA	GROUP AVG	MEASURE
Avg Ordinary Residential Rate	567.87	537.42	($)
Avg Ordinary Business Rate	1,303.80	1,195.83	($)
Avg Ordinary Farmland Rate	1,964.74	2,202.50	($)
Avg Ordinary Mining Rate	333.33	86,674.71	($)
Total Rate Revenue /Total Land Value	210.89	179.29	($)
Typical Residential Water and Sewer Bill (including usage)	925.02	1,067.10	($)
Avg Domestic Waste Charge	295.00	273.07	($)
Own Source Revenue (TCorp Benchmark 60%)	45	49	(%)
Grants Revenue	41	44	(%)
Operating Performance Ratio (TCorp Benchmark >-4.0%)	-4.5	-6.80	(%)
Unrestricted Current Ratio	4.7	5.18	Ratio
Outstanding Rates & Annual Charges	3.8	9.21	(%)
Debt Service Cover Ratio (TCorp Benchmark >2.0)	3.3	26.50	Ratio
Cash Expense Cover Ratio (TCorp Benchmark > 3 mths)	8.6	6.35	(Mths)
Governance & Administration Expenditure per capita	237.81	416.68	($)
Environmental Expenditure (including waste)	167.44	218.44	per capita
Water & Sewer Services Expenditure	356.27	377.40	per capita ($)
Community Services, Education, Housing, Amenities Expenditure	639.91	319.06	per capita ($)
Recreational & Culture Expenditure	237.70	279.50	per capita ($)
Public Order, Safety & Health Expenditure	124.65	142.68	per capita ($)
COUNCIL ASSETS[11]	**LGA**	**GROUP AVG**	**MEASURE**
Roads, Bridges and Footpath expenditure	527.98	1,039.65	per capita ($)
Building & Infrastructure Renewal Ratio	89.2	81.9	(%)
Infrastructure Backlog Ratio (TCorp Benchmark <2.0)	12.1	16.6	(%)
Road Length per '000 capita	130.4	234.2	(metre)
Asset Maintenance Ratio (TCorp Benchmark >1.0)	0.7	0.9	(%)

[10] Data Sourced from OLG 2012/13 Comparative information.
[11] Data Sourced from OLG 2012/13 Comparative information.

1.4 KEY CHALLENGES AND OPPORTUNITIES

(a) Strengths

- Council has already made significant progress since amalgamation in improving its financial ratios and is within reaching distance of a break-even operating position (Annexure 2 has been attached identifying the improvement from amalgamation).

- Significant progress has been made in last three years towards improving Council's financial indicators (please see a comparison of financial indicators prepared as part of Council's 2013/14 Financial Statements – attached as Annexure 3).

- Approval of significant permanent (Section 508A) Special Rate Variation of 29.19% over three (3) years – bringing rates up to regional average (when considering Council's neighbouring Councils).[12]

  An effective management executive team (and the ability to attract and retain specialist staff) - Council has been effectively managed in the last number of years, as stated by TCORP in their review of Council.[13] A Promoting Better Practice Review undertaken in March 2012 found that Glen Innes Severn Council presents as a well-managed and efficient local government body with strong links to the local community. A number of Councillors showed a willingness to provide strategic input into decision making, and there is a good relationship with the Executive team and staff. A number of better practices were identified within the governance, community and workforce relations areas.

- High success rate in obtaining grant revenue from State and Federal bodies (please see "1.2 Scale and Capacity" sub-section "Capable partner for State and Federal agencies".)

- Strong Council willing to make strong decisions (Drainage Charge, SRV, closing of Long Day Care Centre, Sale of Council Property). Council also has a low Councillor turnover; providing further stability.

- Lower road/open spaces asset base per person compared with similarly grouped Councils (based on OLG 2012/13 Comparative data released). [14] This suggests that it should be more affordable for Council to maintain its asset base than it would be for the average council in the same OLG grouping.

Asset Group	LGA	OLG Group
Public Swimming Pools (No.)	2	2

[12] IPART agreed with this conclusion as part of their assessment of Council's application (Page 4, Glen Innes Severn Council's application for a special variation for 2014/15).
[13] Page 4 Glen Innes Severn Council – Financial Assessment and Benchmarking Report (TCORP)
[14] Data Sourced from OLG comparative data report for 2012/13 for the Glen Innes Severn Council.

Public Swimming Pools (No.)	2	2
Public Halls (No.)	5	7
Public Libraries (No.)	4	2
Open Public Space (ha)	117	151
Total Road Length (km)	1,158.30	1,606.10
Road Length per '000 capita (metre)	130.40	234.20

- The Glen Innes Severn LGA (with particular emphasis on the major centre of Glen Innes) has had a particular historical limitation which has dampened economic growth. This limitation was the inability to guarantee water supply during periods of drought, resulting in the potential loss of water intensive industries to neighbouring towns. Due to Council's recent proactive acquisition of an off stream water storage solution, and significant grant funding from the State Government, Council has a real chance of addressing this problem.

- Existing 'Moderate' and 'Neutral' rating by TCORP and strong liquidity position (as rated by TCORP) prior to approval of SRV.[15]

- Approval of $7.8million in LIRS funding to reduce infrastructure backlog (which includes the CBD Renewal, addressing all of Council's bridge backlog, and a significant boost to rural roads).

- A 'diversified' Council – strong community services function (turnover over $4million), strong Water (category 2) and Sewer Fund (category 2) and profitable quarry business (category 1), provide additional financial scale and capacity. These business units spread the Governance and Administration costs from other services and therefore provide additional funds for general fund 'core functions' such as roads and rubbish.

- Council has a demonstrated ability to provide innovative services at a much lower cost than benchmark unit rates on major projects such as the Off Stream Storage and the extension of water and sewer services to Glen Innes Airport.

- Relatively low administration costs per capita as identified by the OLG comparative report for 2012/13 (Governance & Administration expenditure per Capita of $237.81 compared with $416.68).

- Council has undertaken a significant renewal of Glen Innes' main street (Central Business District) to encourage economic development and local shopping. These developments are aimed at boosting employment and the local economy.

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[15] Page 4 Glen Innes Severn Council – Financial Assessment and Benchmarking Report (TCORP)

- Council's airport at Glen Innes is being developed by Australia Asia Flight Training (AAFT) for purposes of an international Flying Academy. This development will reduce Council's operating costs for this asset in the order of $200,000 pa and is expected to provide a boost in employment opportunities and the potential establishment of support industries. It is expected that this flying school in its final stage will have approximately 600 students and 200 employees, equating to a significant boost in population and the local economy.

- The Glen Innes Severn Council has very comparable rating levels to regional neighbours and the OLG group average. This is a strength, as it suggests that Council is affordably levying rates and is not imposing an undue burden on ratepayers.

- Glen Innes Severn Council has many dedicated community volunteers who become members of Community Committees of Council; providing a valuable contribution to the local community and aiding in the upkeep of public halls and facilities.

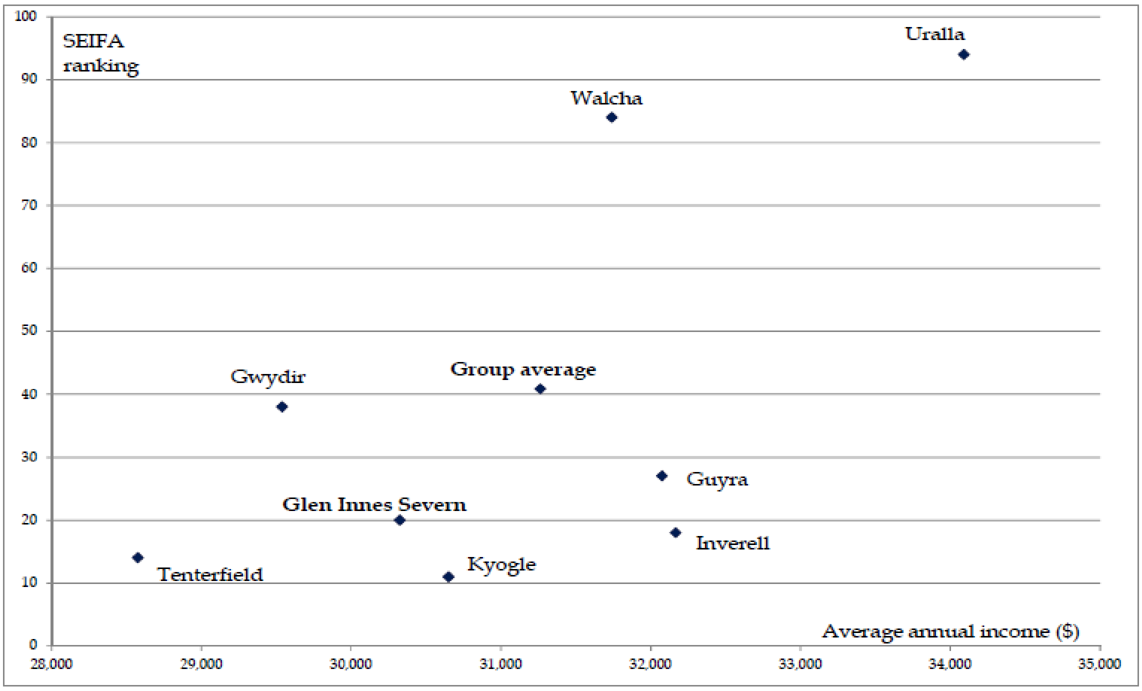
- Relationship and collaboration on projects with neighbouring and other councils in our region.

(b) Weaknesses

- Declining/Static population (NSW Planning projections, ABS). The Glen Innes Severn Council LGA population estimate is expected to decrease from 8,965 to 8,900 by 2031 in the Independent Panels Final Report. However, due to the expected development of the AAFT Flying Academy (with an expectation of 600 students and 200 paid positions in four (4) stages), three (3) approved Wind Farm developments, and ongoing mining exploration in the area, Council is positive in respect of its population growth. Council suggests that it is reasonable to expect an increase in population from the 8,965 identified to 10,000 by 2031. This is an 11.6% increase over 16 years, which equates to an increase of approximately 0.6% per annum. It is appreciated that this is in contradiction with the current trend; however, the majority of the increase could occur rather quickly when considering the scale of possible developments. Council is also confident in the likelihood of the AAFT development occurring, but remains realistic when considering future mining developments.

- SEIFA Ranking/Average Annual Income – relatively low social economic standing of the area. This is however, still comparable with the group average, but will limit the ability to raise rates in future years unless the rankings are improved.

Figure 3.3 Average annual incomes and SEIFA ranking – selected councils



Note: SEIFA stands for Socio-Economic Indicators For Areas.
Source: OLG unpublished data and IPART calculations.

- As with all rural Councils that cover a significant geographical area (in GISC's case 5,486.9 km2), there is a significant asset base to maintain. When considering the population size that needs to 'afford' or fund this asset base, the higher the ratio of assets to rateable person, the higher the cost is per capita. However, as indicated under strengths (above), this ratio does not appear to be as severe as for the average Group 10 Council.

- A weakness for Council in sourcing products and services is the relative isolation and the significant cost of travel from the major centres to Glen Innes Severn. This reduces the effectiveness of procurement initiatives such as Local Government Procurement, Procurement Australia and State Government Contracts (as suppliers are generally very localised around major centres). However, Council has found solutions to this challenge by ordering in bulk, maintaining a sizeable store, aggregating tendered works, and initiatives such as actively participating in the Northern Inland Procurement Group.

- Lack of major industries other than primary farming industries – due to the lack of large industries, Council has traditionally been exposed primarily to the ebb and flow of farming. With the trend toward increasing farm size to remain competitive and reduce input costs (which reduces the number of farmers and employees on the land) the LGA has seen a decreasing population. Further, the lack of major industries has seen limited opportunities for youth resulting in young people leaving Glen Innes for work. Council is confident that the Flight School development, the Wind Farm developments and the possible mining development will provide a counter-weight to this and boost the local economy.

- Geographic situation leading to a lack of water storage and water supply close to Glen Innes has led to a potential loss of water intensive industries. However, Council has now been able to largely addressed this issue with the purchase and development of an off stream water storage solution.

- Infrastructure backlog is a relatively high ratio. The Fit For The Future benchmark for the Infrastructure Backlog Ratio is below 2%. Council is sitting at 12.1% (based on 2012/13 financial results) which is significantly higher than the benchmark, but less than the group average of 16.6%. The ratio can lose 'effectiveness' when one does not consider the fact that this equates to a total of $25million.

- The NSW Local Government Infrastructure Audit identified Council as having a weak rating. This rating was concluded before the approval of Council's SRV and significant LIRS funding, which will address a large portion of deferred renewals.

- Relatively weak economic climate. The Glen Innes Severn LGA (and arguably the entire region) is suffering due to a slow economic climate. This potentially affects the ability to further increase rates and other charges. It may also result in population decline.

- The LGA's reliance on a climate-sensitive main industry (livestock/agriculture) has an effect on the farming community's capacity to pay additional rates.

- Strong regional RMS – leading to lack of private works and a reduction in the scope and capacity of Council's operational plant fleet.

- Council will form part of the New England Joint Organisation (JO) in an area with a very limited history of co-operation at a Regional Organisation of Council (ROC) level. Council believes that although Armidale is identified as the regional centre, it does not currently have the capacity to undertake the role of providing leadership for and support to other member Councils in the proposed future JO. This should be seen as a weakness for Council and for the New England Region as a whole.

(c) Opportunities

- Possibility of industry moving to Glen Innes due to location on two major highways and sourcing of water security. Due to the historic inability to guarantee water security (primarily due to the location of Glen Innes) opportunities for attracting larger water intensive industries have been lost. The securing of an off-stream storage solution will improve the LGA's chance of attracting such industries.

- The aforementioned AAFT development is expected to provide a significant boost to the local economy from the influx of workers (200) and students (600).

- Ability to pay significant dividends from Water, Sewer and Quarry business units as a return on Capital on Council's investment (in the order of $500,000 per annum). These 'businesses' add significantly to Council's Scale and Capacity and these dividends will assist Council in addressing its infrastructure backlog (by obtaining an operational surplus).

- Council is currently in discussion with its neighbours and is investigating the possibility of extending its boundaries based on clearly identified communities of interest. Towards the west (Inverell Shire Council), Council has identified the areas of Swanvale (part), Kingsland and Kings Plains. Toward the north (Tenterfield Shire Council), it has identified the remainder of the Deepwater locality, and to the south (Guyra Shire Council), the areas of Llanglothlin and Ben Lomond. These mentioned areas all have clear communities of interest with Glen Innes Severn and, based on the suggested boundary adjustments, will increase Council's rating assessments by around 580. It is further expected that these boundary adjustments could potentially boost the LGA population by approximately 1,000.

- Regional collaboration – an effective ROC or Joint Organisation of Councils will provide significant opportunity for shared operations, specialised staff (e.g. Centre of Excellence) and specialised assets (e.g. "Stabilisers").

- Council is expecting further economic development in the area in the next few years, for example three (3) approved wind farms and continued mining exploration within the LGA.

- Council has been successful in obtaining $7.8million in LIRS funding to address a significant portion of its infrastructure backlog (rough calculations of 30%). This will be a good opportunity for Council to address the backlog for particular asset classes and move from reactive maintenance to a proactive maintenance schedule – reducing cost and improving efficiency through more scheduled, rather than ad-hoc, maintenance.

- The expected 'pop' of the mining bubble is likely to lead to decreases in construction cost and an increase in the availability of skilled labour – which have in the past had a significant effect on the cost of Council's construction activities.

(d) Threats

- The LGA's current projected declining population, which, if not addressed may lead to a situation where the cost to maintain the asset base per ratepayer is unsustainable (considering the SEIFA ranking, economic situation and rural road network).

- The possible loss of Council's Water and Sewer Funds will have a significant effect on Council's long term sustainability. The impact of this threat is so significant that it could seriously affect Council's ability to be a stand-alone Council into the future. The Water and Sewer Funds absorb a representative portion of Council's administrative and governance costs, which if lost, will not result in savings. Council also currently employs specialist staff which it will not be able to maintain if the Water and Sewer functions were lost.

- There are significant changes expected for Council's Community Services Section (Aged and Disability Services), for example HCP02 individualised funding, possible loss of other block grant funding such as HACC Aged (Case Management Service Type of which $207,000 has already been lost) and disability funded programs such as NRA and AGPA (around $1million in recurring revenue). These are significant concerns for Council.

- The asset backlog (12% of assets equating to approximately $25million) affects Council's ability to maintain assets with a fully scheduled maintenance program. The reason for this is that works are generally reactive (fixing breakdowns) rather than proactively maintaining and renewing assets through scheduled maintenance. Breakdowns are much harder to schedule and therefore inefficiencies are created by not being able to effectively put in place structured maintenance programs.

- This above-mentioned significant asset backlog also pushes asset renewal beyond the optimal replacement point – therefore Council is busy spending money on assets that should already be replaced, and not those that are "due" in any particular financial year. This results in a situation where assets reach a point where they start to deteriorate quicker (for example water ingress into the pavement), which exacerbates Council's assets management problems. Therefore, what would/should have been a road reseal becomes a reconstruction, at much higher cost – to name one practical example.

- Even though all LIRS loan funding approvals are preceded by a TCORP review, it is important for Council to fully consider the long term cumulative impact of its decisions. It is therefore critical that the LTFP fully considers the effect of loan funding under this funding methodology before LIRS funding is drawn and spent. Council has done so very responsibly to date, but it is important to remember that loan repayments will have a significant effect on Council's cash flow position for the next ten (10) years.

2.3 PERFORMANCE AGAINST FIT FOR THE FUTURE BENCHMARKS

Measure / benchmark	2013/14
	ACTUAL
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	✗ -0.031
Own Source Revenue Ratio (Greater than 60% average over 3 years)	✗ 50.21%
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	✗ 84.47%
Infrastructure Backlog Ratio (Less than 2%)	✗ 11.50%
Asset Maintenance Ratio (Greater than 100% average over 3 years)	✗ 78.89%
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	✓ 4.14%
Real Operating Expenditure Per Capita (A decrease in Real Operating Expenditure per capita over time)	✗ Increasing

The historical trends and a full explanation of Council's current position are discussed below.

Sustainability

Sustainability				
Measure / benchmark	2013/2014 Performance	Achieves FFTF benchmark?	Forecast 2016/17 Performance	Achieves FFTF benchmark?
Operating Performance Ratio (Greater than or equal to break-even average over 3 years)	-3.1%	NO	4.36%	YES
Own Source Revenue Ratio (Greater than 60% average over 3 years)	50.21%	NO	62.78%	YES
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	84.47%	NO	103.78%	YES

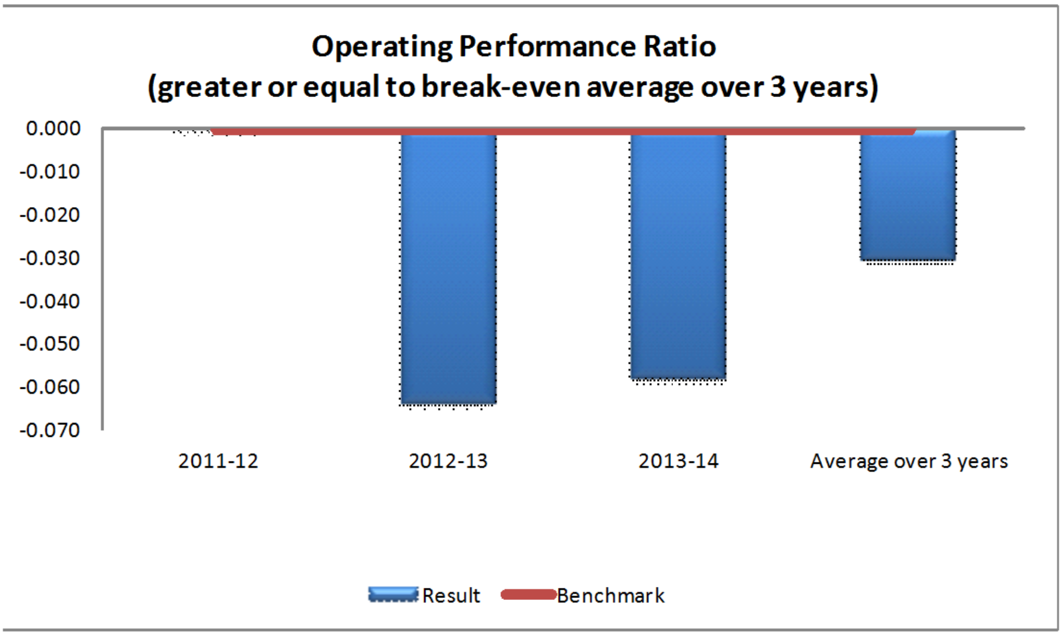
(a)Operating Performance Ratio

Council's Performance in accordance with the FFTF self-assessment tool:

BENCHMARK AND RESULT

Benchmark:- ***Greater or equal to break-even average over 3 years***

	2011-12	2012-13	2013-14	Average over 3 years
Result	0.025	-0.064	-0.058	-0.031
Benchmark	0	0	0	0



MEETS THE FFTF BENCHMARK

NO

This is how we calculated the council's result.....

(Figures are carried over from the data sheet and are in $000)

$$\frac{\textit{Total continuing operating revenue (exc. capital grants and contributions) less operating expenses}}{\textit{Total continuing operating revenue (exc. capital grants and contributions)}}$$

2011-12 $\frac{(21923-100-0-0-0-0-0-0)-(21257-24-0-0)}{21923-100-0-0-0-0-0-0} = \frac{542}{21,823} = 0.025$

2012-13 $\frac{(20544-165-94-0-0-0-0-0)-(21565-0-0-10)}{20544-165-94-0-0-0-0-0} = \frac{-1,290}{20,285} = -0.064$

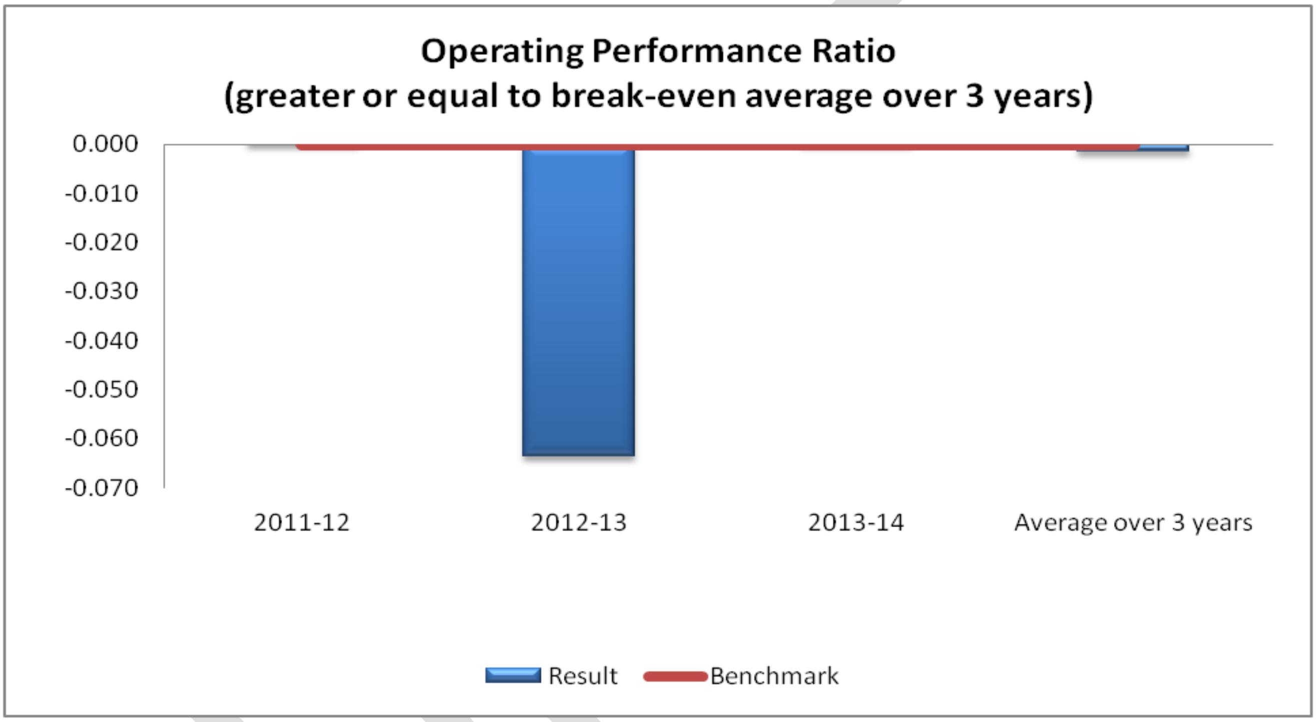
2013-14 $\frac{(21489-1639-6-0-0-0-0-0)-(20980-0-0-10)}{21489-1639-6-0-0-0-0-0} = \frac{-1,146}{19,844} = -0.058$

Note: *Both numerator and denominator in this calculation excludes fair value adjustments, reversal of revaluation decrements, net gain/losses on sale of assets and net share/loss of interests in joint ventures*

Council commentary on benchmark:

The self-assessment tool graph indicates that Council does not currently meet the identified benchmark, however, it is suggested that the results were affected by one-off events, which have had a significant effect on Council's General Fund operating position. For example, the correction in the timing of the Federal Financial Assistance Grant (FAG) reduced Council's operating revenue by $1.8million. This would have seen Council achieve a profit of $654,000 in 2013/14 (which would have equated to a Local Government comparative position of 52nd in NSW). Other examples include the timing differences between grant revenue and expenditure (in particular the flood damage received in 2010/11 and expended in the subsequent three years.)

It should be noted that the effect of excluding the 2013/14 FAG adjustment identifies that Council would have basically met the Operating Performance Ratio:



Projected result 2016/17:

In 2013 Council adopted a resolution committing Council to achieving an operating profit within three (3) financial years (combined). This recommendation has spurred a number of revenue increases and expenditure cuts in the last number of financial years, which ultimately resulted in the approval of a SRV of 29.19%. As part of this process (but prior to the SRV) the following 'major' items were implemented:

1) Increase in Water Annual Charges of $100 per assessment (compared with the former charge of $150), combined with a focus on compliance with the Australian Drinking Water Guidelines, to enable the paying of dividends for the General Fund in future;
2) Cessation of the Long Day Care service at Gum Tree Glen (saving of $230,000 p.a.);
3) Introduction of a Drainage charge which resulted in additional revenue of $260,000 p.a.;
4) A review of Depreciation and Service Levels (roads and open spaces).

These have given Council a very healthy platform from which to achieve the FFF ratios. This can be clearly seen in the LTFP projections which indicate that Council will indeed achieve an overall operating surplus within the identified three (3) years, but will also achieve an operating surplus within the General Fund. The Action Plan includes further items which will ensure that Council meets this benchmark. Importantly, it should be noted that the overall position of Council in the 2013/14 financial year, compared with Council's OLG Group, is favourable with an overall combined deficit of 4% compared with the group deficit of 16%.

Action Plan items to ensure benchmark is met:

The AP under "Action Plan" below indicates the following items need to be pursued to ensure that Council will achieve this benchmark:

1. Adequate reporting on this benchmark (Financial Statements and Operational Budget/Quarterly Budget Reviews);
2. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
3. A permanent SRV under Section 508A to bring rates up to the regional average (already approved);
4. Improving the performance of the Water and Sewer funds in line with Best Practice Guidelines to ensure that an appropriate return is achieved to the General Fund (as Dividends);
5. Improving performance of Glen Innes Aggregates to provide a significant return to the General Fund;
6. Ensuring Cost Recovery on all Fees and Charges;
7. Pursuing Boundary Adjustments to incorporate areas with clear communities of interest into the LGA.

The specific action items under each are outlined under the detailed AP. The LTFP indicates that Council will achieve an operating profit, and therefore an Operating Performance Ratio above the benchmark of zero.

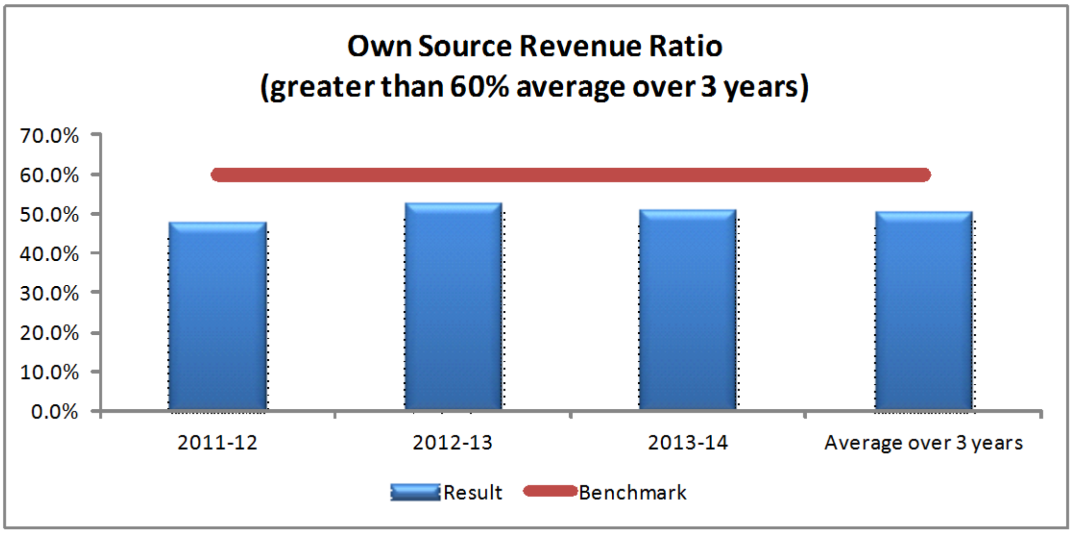
(b)Own Source Revenue Ratio

Council's Performance in accordance with the FFTF self-assessment tool:

BENCHMARK AND RESULT

Benchmark:- ***Greater than 60% average over 3 years***

	2011-12	2012-13	2013-14	Average over 3 years
Result	47.5%	52.5%	50.8%	**50.2%**
Benchmark	60%	60%	60%	60%



MEETS THE FFTF BENCHMARK

NO

This is how we calculated the council's result.....

(Figures are carried over from the data sheet and are in $000)

$$\frac{\textit{Total continuing operating revenue less all grants and contributions}}{\textit{Total continuing operating revenue inclusive of capital grants and contributions}}$$

2011-12	21923-11414-100-0-0-0-0-0-0 / 21923-0-0-0-0-0-0	=	**10,409 / 21,923**	=	**47.5%**
2012-13	20544-9546-165-94-0-0-0-0-0 / 20544-94-0-0-0-0-0	=	**10,739 / 20,450**	=	**52.5%**
2013-14	21489-8930-1639-6-0-0-0-0-0 / 21489-6-0-0-0-0-0	=	**10,914 / 21,483**	=	**50.8%**

Note: *Both numerator and denominator in this calculation excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets and net share of interests in joint ventures*

Council commentary on benchmark:

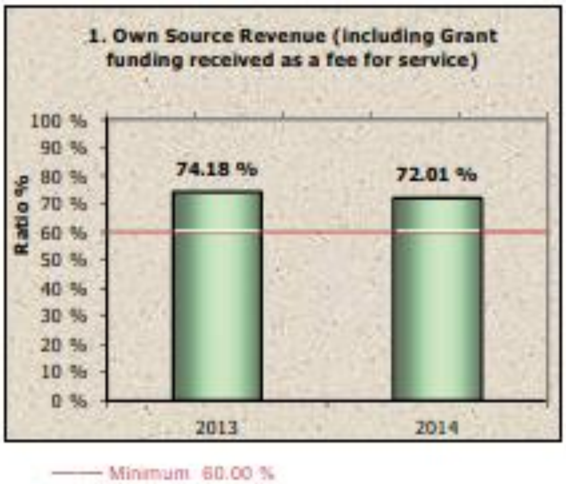
The self-assessment tool graph indicates that Council does not currently meet the identified benchmark, however, for this particular ratio Council's result is skewed by a large grant funded Community Service Function (with grant funding in the order of $4million). It is Council's contention that due to the different structure of Council's operations, comparing Council to a set 60% benchmark (which would have been set based on the average NSW Council) is not equitable. The grants received for Council's Community Service Function should be considered a fee for service, not a grant. This argument is strengthened by the change in Community Services funding from block grant funding to individualised consumer directed funding which is effectively a fee for service.

Council identified an adjusted ratio in Note 28 of Council's General Purpose Financial Statements for the 2013/14 financial year which indicated the following (admittedly at a combined level):

1. Own Source Revenue (including Grant funding received as a fee for service)

Own Source Revenue (plus Grants for Aged and Disability Services) ('000)	17,878	72.01 %	74.18 %	N/A
Total Operating Revenue (Including Grants) ('000)	24,826			

Council has a significant Aged and Disability service which benefits the community, the service is grant funded and this can skew the Own Source Operating ratio. The grant funding received is effectively a fee for service and therefore Council includes this grant revenue when identifying its Own Source Operating Revenue Ratio. Once one includes this grant revenue, Council is in a very healthy position in respect of its OSOR ratio. This ratio measures the ability of a Council to withstand fluctuations in its grant revenue, the higher the ratio the more resistant (stronger) a Council is. A ratio above 60% is considered satisfactory.



Purpose of 1. Own Source Revenue (including Grant funding received as a fee for service)	Commentary on 2013/14 Result
	2013/14 Ratio 72.01 %
To measure the ability of the organisation to withstand changes in grant funding.	This ratio is healthy, well above the 60% benchmark identified by the OLG (bearing in mind the adjustment made to the formula - as discussed above).

It should be noted that this function contributes to Council's financial scale and capacity and should not be seen as an effective liability (as the OSR Ratio would indicate). The Community Service function contributes approximately $500,000 of external funding to the General Fund each year as a contribution to the (overhead) cost of administration and governance.

Action Plan items to ensure benchmark is met:

The AP under "Action Plan" below indicates the following items need to be pursued to ensure that Council will achieve this benchmark:

1. Adequate reporting on this benchmark (Financial Statements);
2. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
3. A permanent SRV under Section 508A to bring rates up to the regional average (already approved);

4. Improving performance of Glen Innes Aggregates to provide significant return to the General Fund;
5. Ensuring Cost Recovery on all Fees and Charges;
6. Pursuing Boundary Adjustments to incorporate areas with clear communities of interest into the LGA.

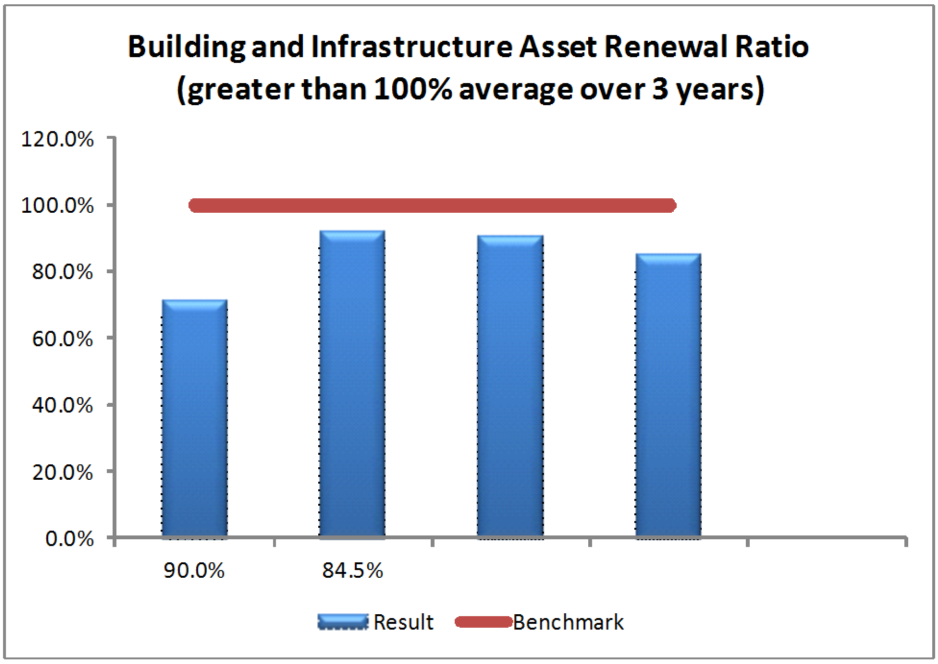
The specific action items under each are outlined under the detailed AP. The LTFP indicates that Council will just achieve this benchmark.

(c)Building and Infrastructure Asset Renewal Ratio

Council's Performance in accordance with the FFTF self-assessment tool:

BENCHMARK AND RESULT
Benchmark: Greater than 100% average over 3 years

	2011-12	2012-13	2013-14	Average over 3 years
Result	71.0%	92.0%	90.0%	**84.5%**
Benchmark	100%	100%	100%	100%



MEETS THE FFTF BENCHMARK

NO

This is how we calculated the council's result.....
(Figures are carried over from the data sheet and are in $000)

$$\frac{\textit{Asset renewals (building and infrastructure)}}{\textit{Depreciation, amortisation and impairment (building and infrastructure)}}$$

2011-12 $\frac{2,925}{4,120}$ = **71.0%**

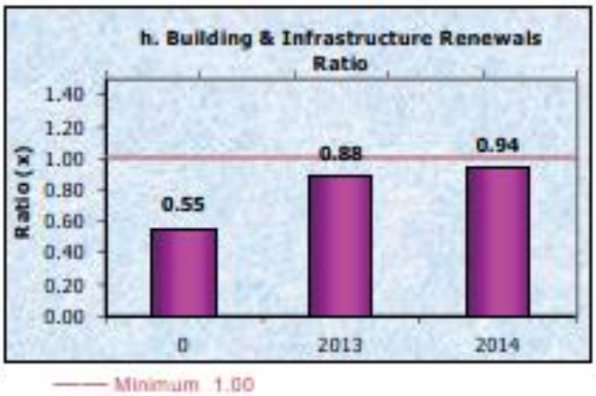
2012-13 $\frac{3,778}{4,106}$ = **92.0%**

2013-14 $\frac{3,990}{4,433}$ = **90.0%**

Council commentary on benchmark:

The self-assessment tool indicates that Council does not currently meet the identified benchmark, however, the increase in total actual asset renewals (from $2,925million in 2011-12 to $3.990million in 2013/14) and the positive trend should be noted. Council has a very strong focus on meeting these ratios and there is no reason why Council should not be able to achieve this ratio in the next few years. The LTFP modelling indicates that Council will meet this ratio from the 2014/15 financial year onward.

Special Schedule 7 of Council's General Purpose Financial Statements indicates the following improving over the last three years (at a combined level):



Purpose of Asset Renewals Ratio	Commentary on 2013/14 Result 2013/14 Ratio 0.94 x
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.	The building and infrastructure renewal ratio is improving but has not yet hit the 1:1 mark. Council should continue to focus on this ratio to ensure that it can start to address the infrastructure backlog.

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

It should also be noted that the recent 2013/14 OLG comparative data indicated that the OLG group average was 79.4% (combined). This should be compared with the data above, which indicates that Council is in a good position when compared with the group average. The ratio decreased primarily because of a revaluation done of building assets, which increased depreciation and therefore reduced Council's overall position in respect of the ratio.

Projected result 2016/17:

Council's LTFP modelling indicates that Council will meet this ratio from the 2014/15 financial year onward. The projected ratio is identified in the AP below.

Action Plan items to ensure benchmark is met:

The AP indicates that the following items need to be pursued to ensure that Council will achieve this benchmark:

1. Rationalise Council's asset base by disposing of assets that are not required, particularly considering the cost of depreciation and required maintenance;
2. Creating a funded infrastructure reserve to ensure that any shortfall in year on year spend is cash funded;
3. Increasing expenditure on Buildings and Infrastructure in line with the identified renewals in the AMPs.

The specific action items under each are outlined in the detailed AP. The LTFP indicates that Council will meet this benchmark.

There are a number of other AP items which will also benefit this ratio, including:

1. Adequate reporting on this benchmark (Financial Statements);
2. LIRS funding of $5million for asset renewals;

3. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
4. A permanent SRV under Section 508A to bring rates up to the regional average (already approved);
5. Improving the performance of Glen Innes Aggregates to provide a significant return to the General Fund;
6. Ensuring Cost Recovery on all Fees and Charges;
7. Pursuing Boundary Adjustments to incorporate areas with clear communities of interest into the LGA.

Infrastructure and Service Management:

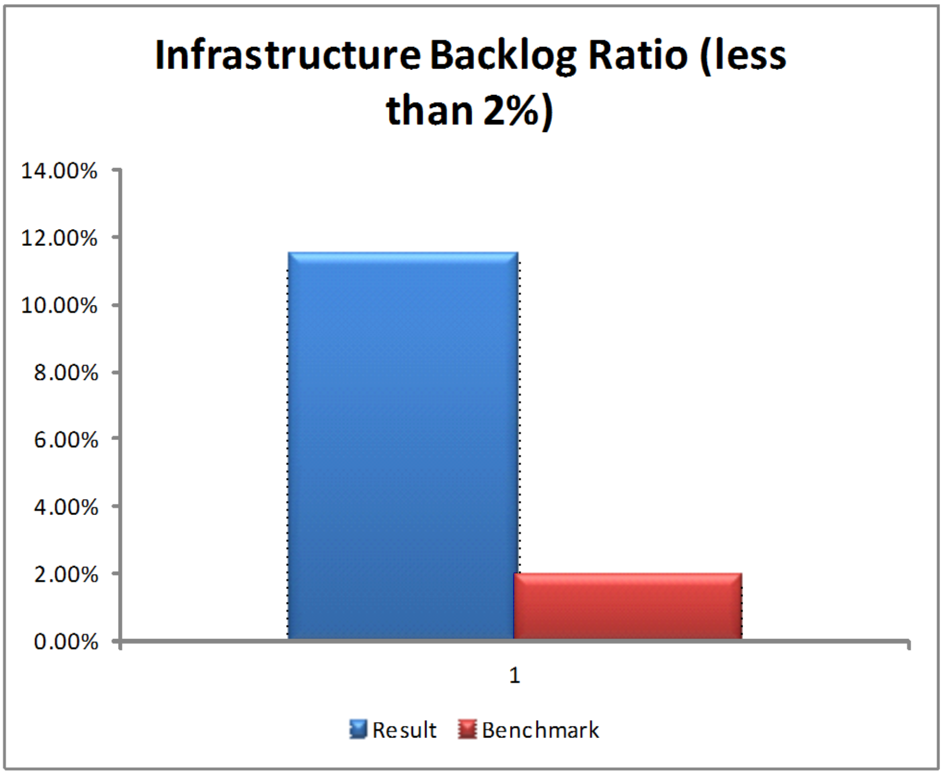
Infrastructure and service management				
Measure / benchmark	2013/2014 Performance	Achieves FFTF benchmark?	Forecast 2016/17 Performance	Achieves FFTF benchmark?
Infrastructure Backlog Ratio (Less than 2%)	11.50%	NO	8% (rounded)	NO
Asset Maintenance Ratio (Greater than 100% average over 3 years)	79.89%	NO	117%	YES
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	4.14%	YES	10.48%	YES

(d)Infrastructure Backlog Ratio

Council's Performance in accordance with the FFTF self-assessment tool:

Benchmark:- **Less than 2%**

	2013-14
Result	**11.50%**
Benchmark	**2%**



MEETS THE FFTF BENCHMARK

NO

This is how we calculated the council's result.....

(Figures are carried over from the data sheet and are in $000)

$$\frac{\textit{Estimated cost to bring assets to a satisfactory condition}}{\textit{Total (WDV) of infrastructure, buildings, other structures and depreciable land improvement assets}}$$

2013-14 $\frac{19,775}{171,933}$ **= 11.50%**

Council commentary on benchmark:

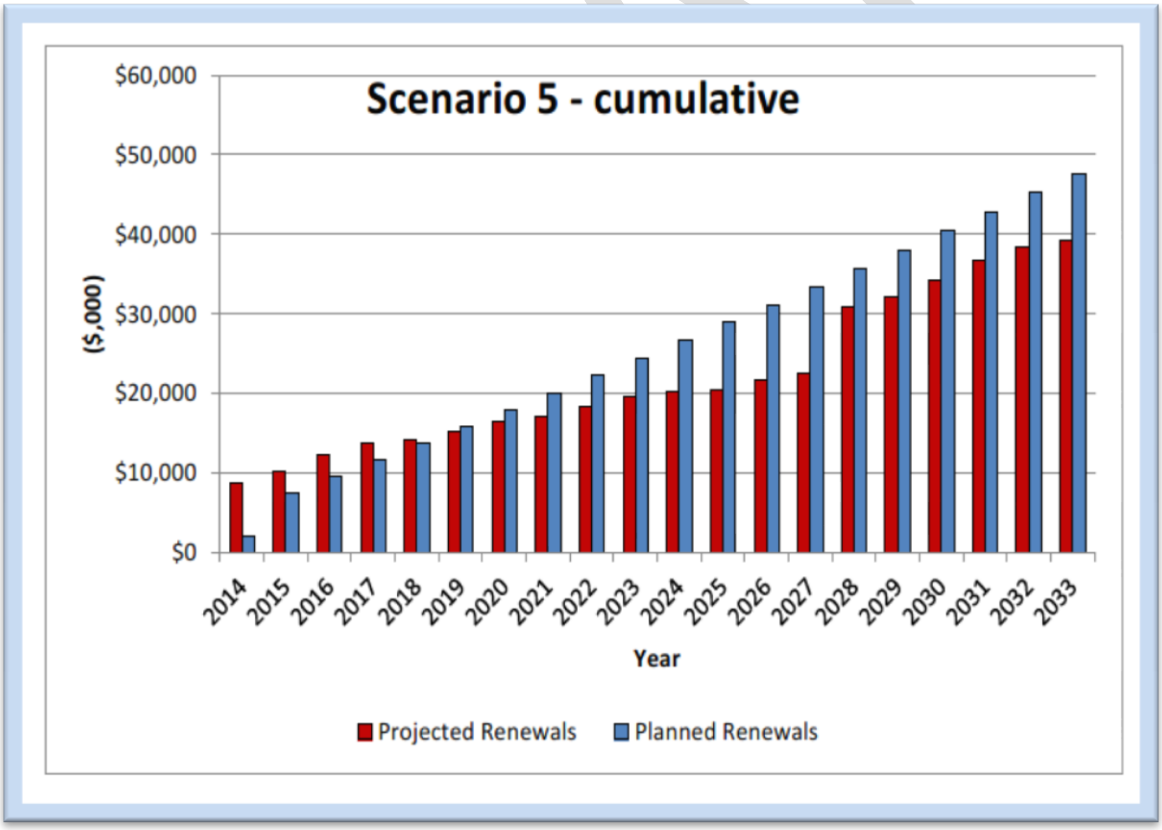
Council's infrastructure backlog ratio is significantly higher than the benchmark. For Council to address this backlog, Council must spend more than the Building and Infrastructure Asset Renewal Ratio each year. At this stage, Council is making progress with the backlog (as 25% of the backlog is expected to be addressed in the next two (2) years through LIRS funding). However, Council will need to make a concerted effort over many years to address this backlog. Council has made some progress already, reducing the backlog from 14% to 11.5% through the use of LIRS funding of $2.8million in the last two (2) years.

Furthermore, Council will continue to make good progress after the $5million in LIRS funding has been repaid in 10 years and the full SRV revenue of $1million per annum can be directed to the backlog (around $400,000 of SRV revenue per annum are currently being used).

It should also be noted that the recent 2013/14 OLG comparative data indicated that the OLG group average was 13.8% (combined). This should be compared with Council's combined position of 12.0%.

Projected result 2016/17:
It is expected that Council's backlog will decrease in the order of 25% by 2016/17, however, it is not expected that Council will meet the required 2% backlog ratio. Council believes that a realistic expectation, given the size of the backlog at $19.8million for the General Fund, would be in the order of 20 years to address this backlog. However, Council suggests that this timeframe is still reasonable, as the backlog had developed over more than three (3) decades (primarily since the introduction of rate pegging in NSW in 1977/8). It is unrealistic and unreasonable to expect the community to be able to address this significant backlog in the short term. Council is committed to address this challenge through adopting a proper and consistent long term financial planning and management approach.

Council is currently focusing its efforts on the road transport asset class, which was identified by the community as critical in the CSP. This can be seen in the adopted scenario of the LTFP (when incorporating the approved SRV revenue after 2013/14 and after the Infrastructure audit).



Overall Council is making progress, which will be further 'boosted' by the additional SRV revenue, the LIRS loan funding and the other items identified in the AP.

Action Plan items to ensure benchmark is met:

The AP below indicates the following items need to be pursued to ensure that Council will achieve this benchmark:

1. Identify exactly what Council's backlog is and ensure that it spends money on the right assets;
2. Increasing expenditure on assets over and above the required renewals for that financial year based on the AMP's.

The specific action items under each are outlined under the detailed AP. The LTFP indicates that Council will reduce this benchmark, but will not meet it by 2016/17.

There are a number of other AP items which will also benefit this ratio, including:

1. Adequate reporting on this benchmark (Financial Statements);
2. LIRS funding of $5million for asset renewals;
3. Responsible Long Term Financial Planning – incorporating a year on year reduction in expenditure;
4. A permanent SRV under Section 508A to bring rates up to the regional average (already approved);
5. Improving performance of Glen Innes Aggregates to provide a significant return to the General Fund;
6. Ensuring Cost Recovery on all Fees and Charges.

(e) Asset Maintenance Ratio

Council's Performance in accordance with the FFTF self-assessment tool:

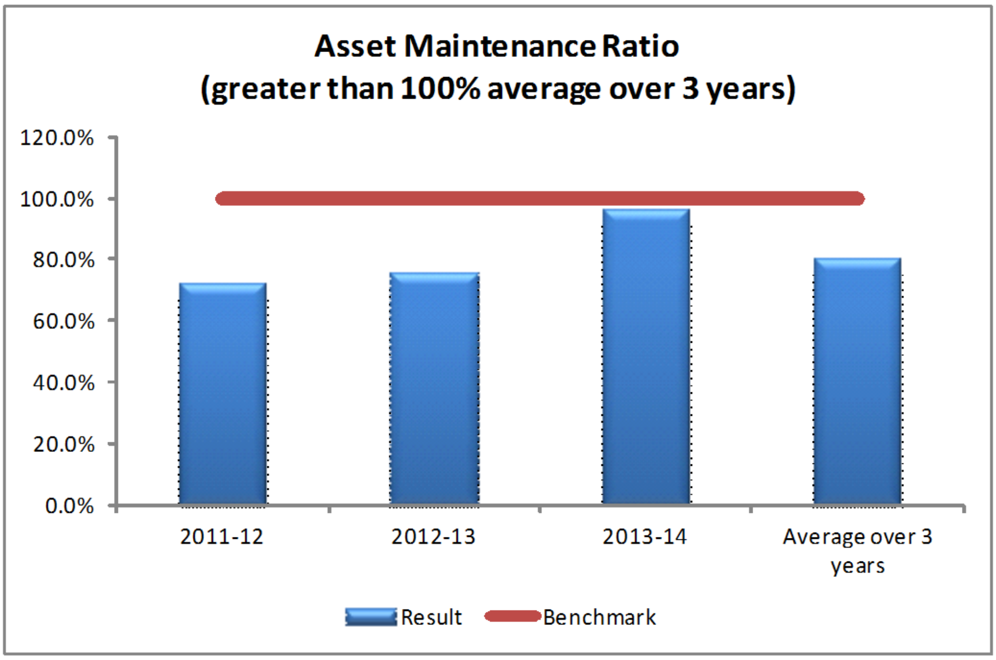
GENERAL FUND - ASSET MAINTENANCE RESULT

Glen Innes Severn Council

BENCHMARK AND RESULT

Benchmark:- *Greater than 100% average over 3 years*

	2011-12	2012-13	2013-14	Average over 3 years
Result	71.6%	75.5%	96.2%	**79.9%**
Benchmark	100%	100%	100%	100%



MEETS THE FFTF BENCHMARK

NO

This is how we calculated the council's result.....

(Figures are carried over from the data sheet and are in $000)

$$\frac{\textit{Actual asset maintenance}}{\textit{Required asset maintenance}}$$

2011-12	$\frac{1,826}{2,549}$	=	**71.6%**
2012-13	$\frac{1,296}{1,716}$	=	**75.5%**
2013-14	$\frac{1,685}{1,752}$	=	**96.2%**

Council commentary on benchmark:

Council has had a strong emphasis on this ratio to ensure that maintenance on assets is increasing. To achieve this, Council has adopted for the last two (2) years a 10% increase year on year on the road transport asset class. This has resulted in a strong upward trend in the ratio, which is identified in the graph and will be continued in future years; following the AP. It should be noted that a review of service levels decreased the required maintenance from the 2011-12 to the 2012-13 financial year. The reviewed service levels were adopted after a proper public consultation process. It should also be noted that the 2011-12 financial year was affected by large amounts of grant funded road repairs after a number of flood events. These are identified below:

Flood Event (Date)	Quantum of Damages
Dec 2010 to Jan 2011	$1,160,474.99
Jun 2011	$66,205.00

It is noted that the recent 2013/14 OLG comparative data indicated that the OLG group average was 89.5% (combined). This should be compared with Council's combined position of 97.0%.

Projected result 2016/17:

Based on Council's projections, it is expected that Council will achieve the required Asset Maintenance Ratio. The approach adopted by Council of continuous increases over the last two (2) years has been effective and can be seen in the Asset Maintenance Ratio graph.

Action Plan items to ensure benchmark is met:

The AP under "Action Plan" below indicates the following items need to be pursued to ensure that Council will achieve this benchmark:

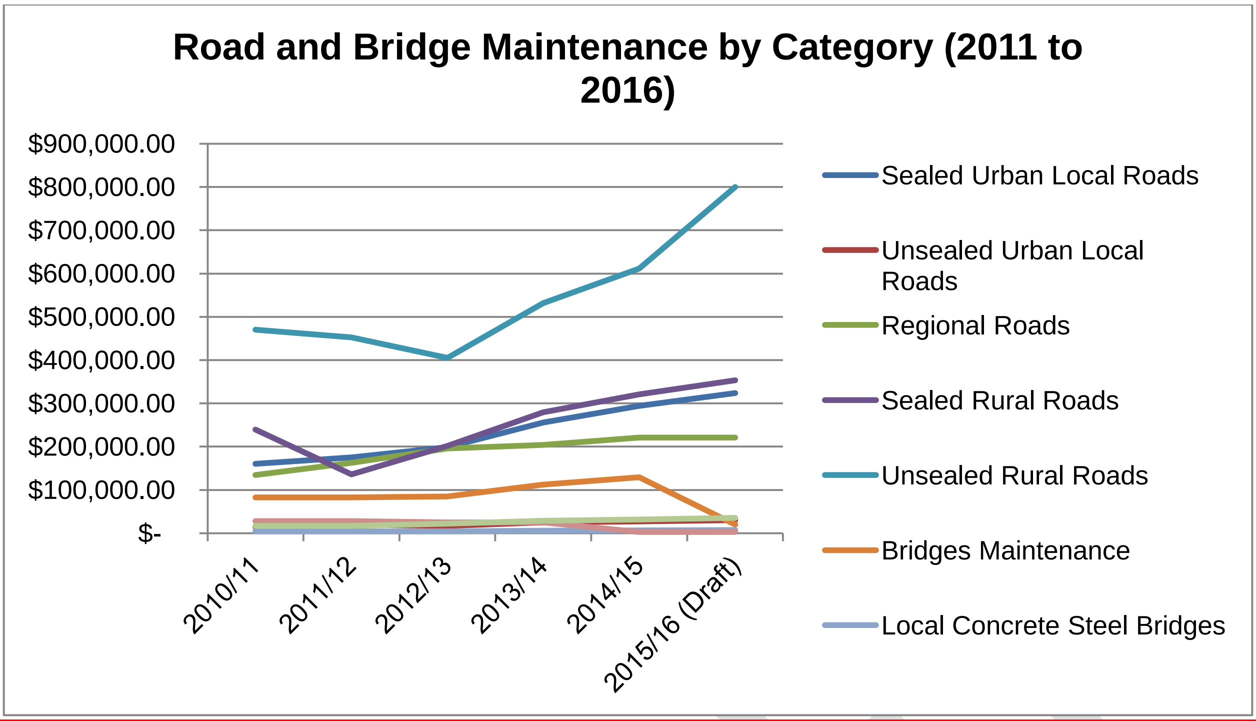
1. Confirm exactly what Council needs to spend and ensure it is being spend on the correct assets;
2. Increasing expenditure on assets over and above the required maintenance for that particular financial year based on the AMP's.

The specific action items under each are outlined under the detailed AP. The LTFP indicates that Council will meet this benchmark by 2016/17.

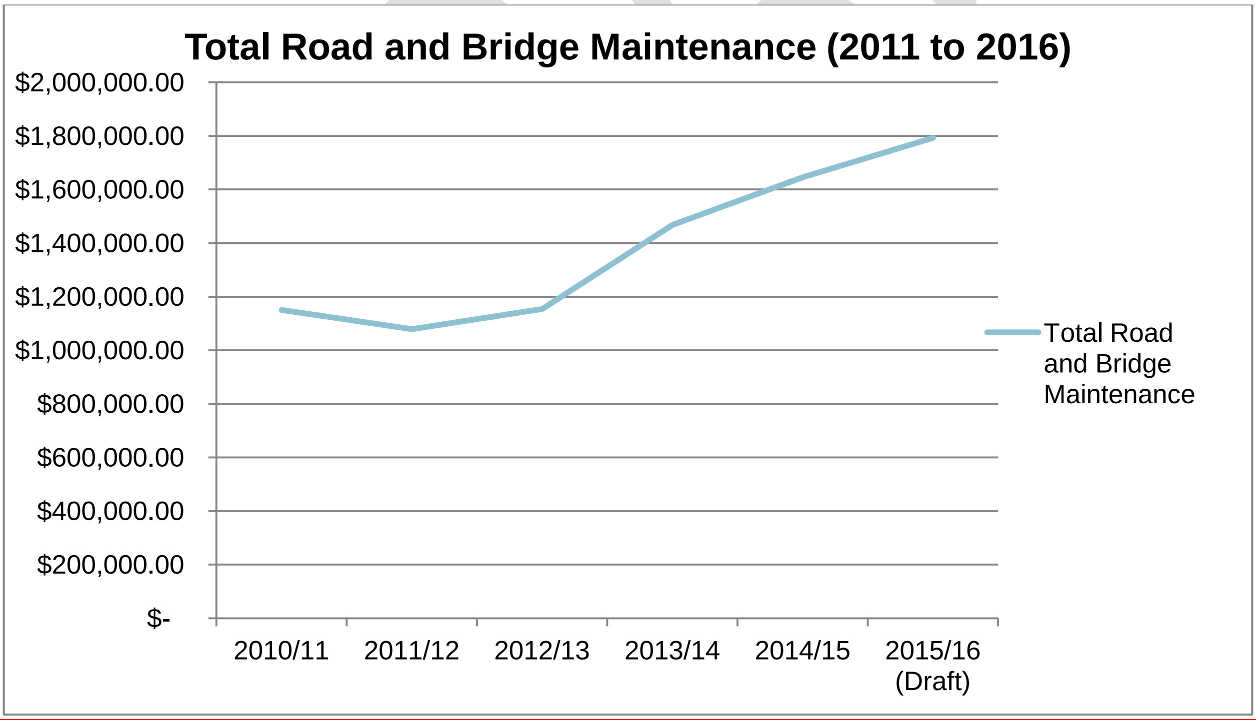
There are a number of other AP items which will also benefit this ratio, including:

1. Adequate reporting on this benchmark (Financial Statements);
2. LIRS funding of $5million for asset renewals – which will assist in moving Council from reactive to proactive maintenance for its Bridge Assets class;
3. A permanent SRV under Section 508A to bring rates up to the regional average (already approved);
4. Improving performance of Glen Innes Aggregates to provide a significant return to the General Fund;
5. Ensuring Cost Recovery on all Fees and Charges.

The year on year Road and Bridge maintenance, which forms a significant part of Council's overall strategy by which to increase maintenance, can be seen below:



Bridge maintenance was decreased in the 2015/16 financial year due to the $4 million being spent in LIRS funding. Council is anticipating the establishment of a permanent and specialised bridge crew which will significantly improve bridge maintenance in the 2016/17 year. This action is intended to reverse the current re-active maintenance with a pro-active approach.



(f) Debt Service Ratio

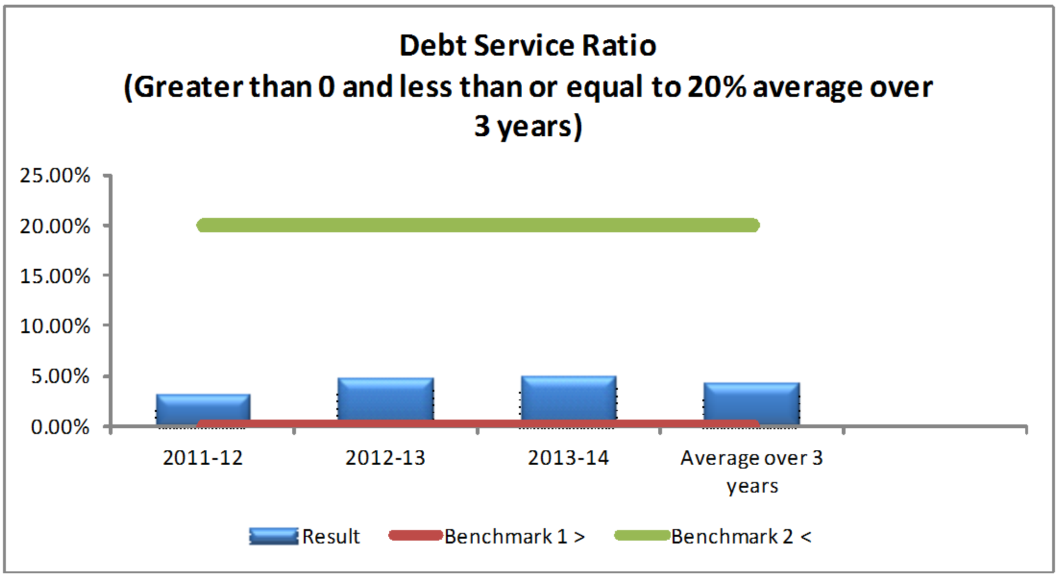
Council's Performance in accordance with the FFTF self-assessment tool:

Glen Innes Severn Council

BENCHMARK AND RESULT

Benchmark:- Greater than 0 and less than or equal to 20% average over 3 years

	2011-12	2012-13	2013-14	Average over 3 years
Result	3.05%	4.64%	4.83%	**4.14%**
Benchmark 1 >	0%	0%	0%	0%
Benchmark 2 <	20%	20%	20%	20%



MEETS THE FFTF BENCHMARK 

YES

This is how we calculated the council's result.....

(Figures are carried over from the data sheet and are in $000)

Cost of debt service (interest expense & principal repayments)

Total continuing operating revenue (exc. capital grants and contributions)

2011-12	246+420 / 21923-100-0-0-0-0-0	=	**666 / 21,823**	=	**3.05%**
2012-13	457+484 / 20544-165-94-0-0-0-0	=	**941 / 20,285**	=	**4.64%**
2013-14	499+459 / 21489-1639-6-0-0-0-0	=	**958 / 19,844**	=	**4.83%**

Note: *The denominator in this calculation excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets and net share of interests in joint ventures*

Council commentary on benchmark:

Council views the inclusion of a Debt Service Ratio as an interesting addition to the FFF ratios; particularly with a ratio of up to 20% being allowed. This is contrary to a number of other sources which suggest a ratio maximum of 10% with a 15% maximum if debt funding is specifically funded through a particular revenue source (such as in Council's case, the SRV). Even though the benchmark ratio seems to be high, Council agrees with the emphasis on loan funding and the need to ensure inter-generational equity in funding assets. Further, the current NSW position in respect of the infrastructure backlog, combined with LIRS funding and record low interest rates, suggest that it is indeed a good solution at the present point in time.

Council has taken a strong stance in respect of loan funding, actively using loan funding particularly where it is subsidised, to address works that are part of Council's identified backlog.

Council has drawn the following loans which were not included in the LIRS scheme since its amalgamation in 2004:

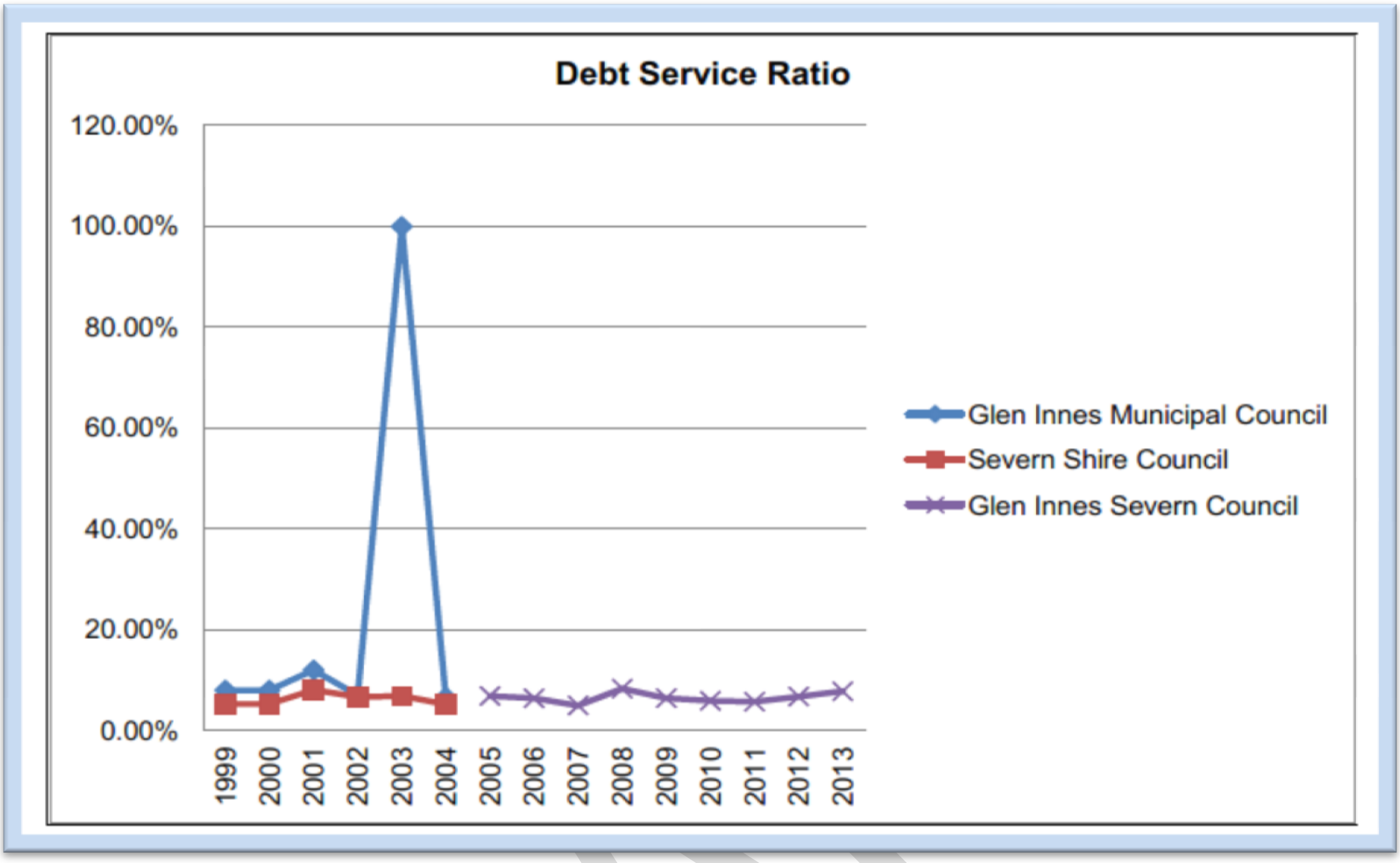
Purpose of Loan	Interest Rate	Amount $
Library/ Learning Centre Loan	7.35%	530,000
Subsidised Sewerage Treatment Works	6.51%	2,715,000
Land Acquisition – Water Storage	7.69%	2,800,000
LIRS Loan – Accelerated Road Works Program	1.32% (5.32%) 4% subsidy	1,000,000
LIRS Loan – CBD Infrastructure Upgrade	1.46% (5.46%) 4% subsidy	1,800,000
Business Acquisition - Quarry	7.69%	1,050,000

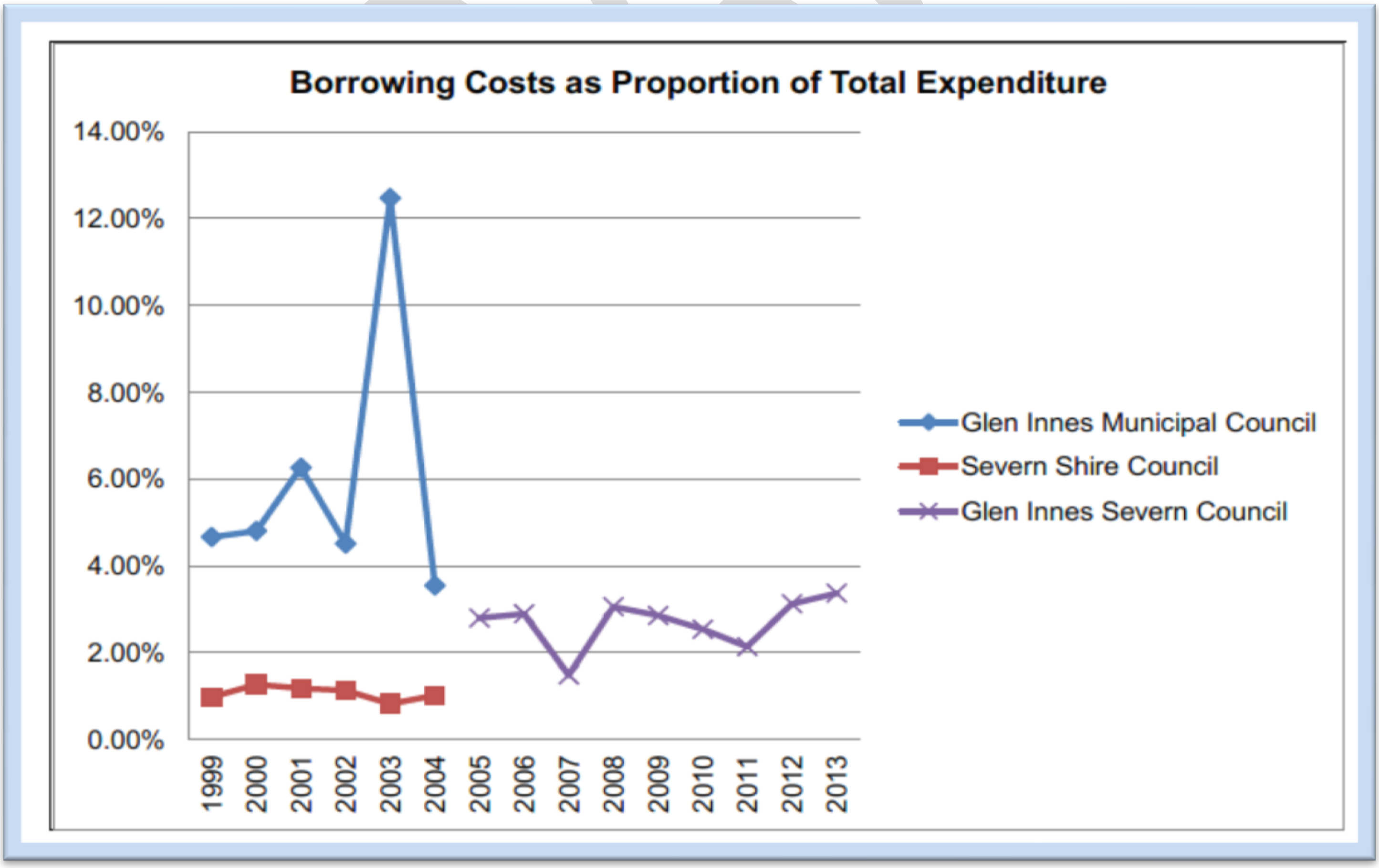
At the time of writing this Proposal, Council has been approved for a further $6.5million in loan funding which is to be drawn as follows:

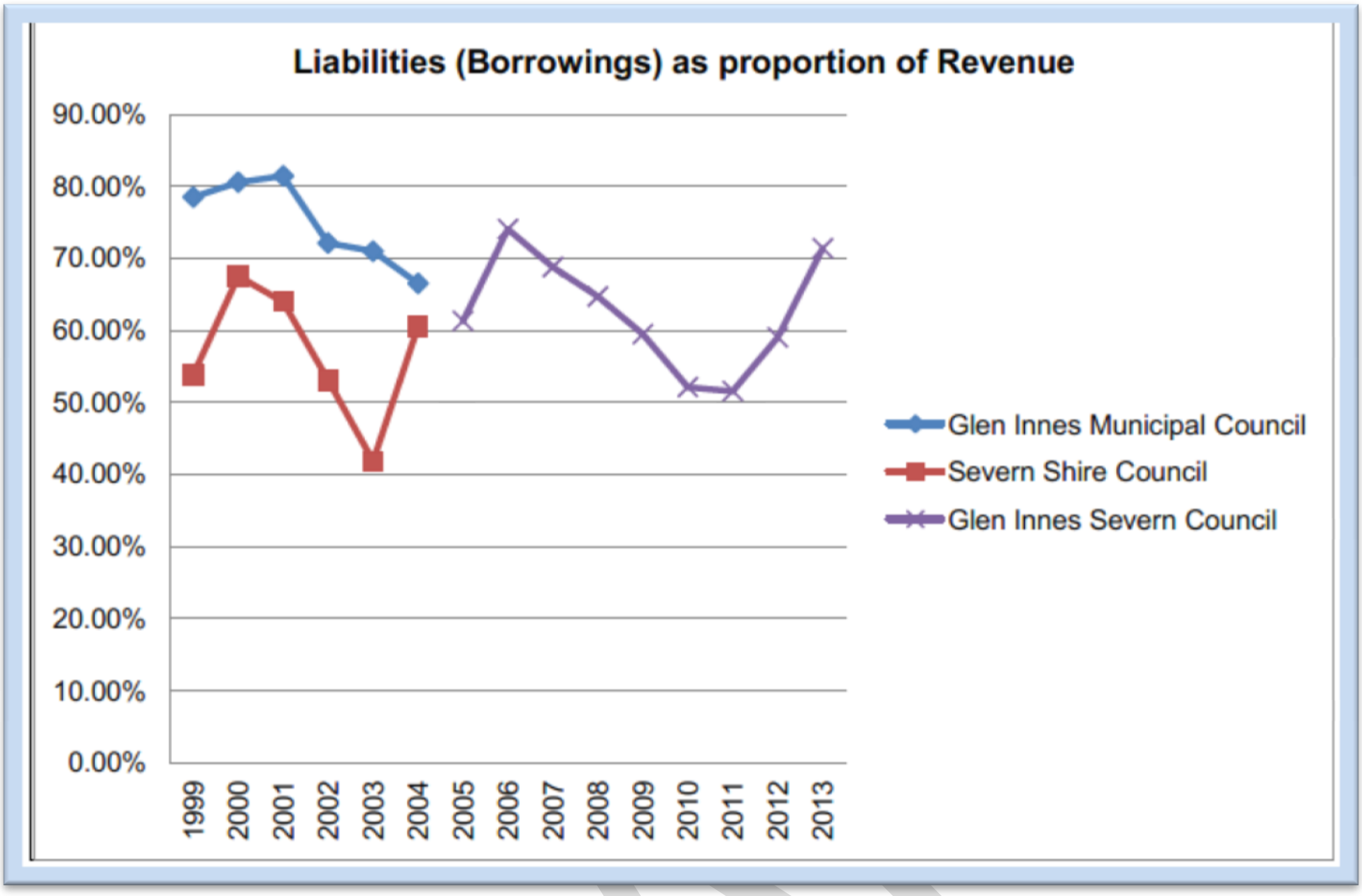
Purpose of Loan	Interest Rate (quoted)	Amount $
LIRS – Accelerated Bridge Program	3.7% (3% subsidy)	$4,000,000
LIRS – Accelerated Road Program	3.7% (3% subsidy)	$1,000,000
Swimming Pool Renewal (per CSP)	4.56%	$1,500,000

This funding has been identified as part of the SRV LTFP and was identified as affordable. The loan funding has also been included in the LTFP associated with the FFF proposal.

Prior to drawing this funding, Council prepared a report identifying the loan funding situation. The following graphs were used to compare the pre-amalgamation Councils with the newly formed GISC):


Debt Service Ratio
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Glen Innes Municipal Council
Severn Shire Council
Glen Innes Severn Council


Borrowing Costs as Proportion of Total Expenditure
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Glen Innes Municipal Council
Severn Shire Council
Glen Innes Severn Council



Council believes that it is in a good position in respect of overall borrowings, particularly considering the significant annual subsidy Council will receive each year and the additional SRV revenue which has been specifically approved for loan repayments.

Projected result 2016/17:
Based on Council's LTFP projections, the historical trend and current loan contracts, Council is certain to meet the required ratio for the next 20 years. The exact expected ratio is identified in Council's projections.

Action Plan items to ensure benchmark is met:
Since Council already meets this ratio, the only item that was deemed necessary to include in the AP, was the following:

1. That Council will fund infrastructure using loan funding when the cost of deterioration and additional maintenance (including additional risk) exceeds the cost of finance.

The specific item was identified under this heading in the AP.

Efficiency:

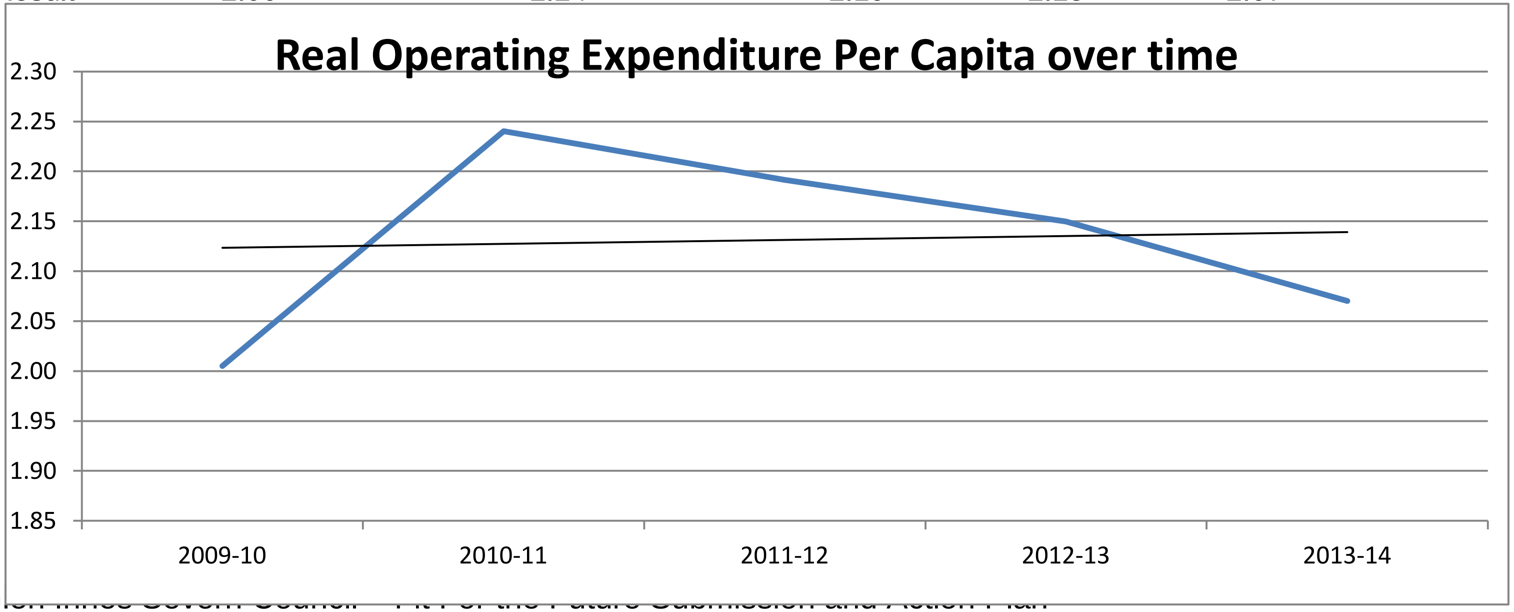
Efficiency				
Measure / benchmark	2013/2014 Performance	Achieves FFTF benchmark?	Forecast 2016/17 Performance	Achieves FFTF benchmark?
Real Operating Expenditure Per Capita (A decrease in Real Operating Expenditure per capita over time)	Increasing	NO	Decreasing	YES

(g)Real Operating Expenditure Per Capita

Council's Performance in accordance with the FFTF self-assessment tool:

The self-assessment tool graph indicates that Council does not currently meet the identified benchmark. Positively, it highlights that Real Operating Expenditure Per Capita has decreased for the last four (4) years. The graph is indicated below:

Benchmark:-	*A decrease in Real Operating Expenditure Per Capita over time*				
	2009-10	2010-11	2011-12	2012-13	2013-14
Result	2.00	2.24	2.19	2.15	2.07



Council commentary on benchmark:

The information used for this benchmark is very easily skewed by events which affect revenue as well as expenditure, for example one-off grants (e.g. Flood Damage expenditure), or the purchase / establishment of an additional service (e.g. Glen Innes Aggregates). This is exactly what has happened with Council over the last number years.

Considering the graph below, it is clear that the expenditure per capita has been decreasing since the purchase in 2011 of Glen Innes Aggregates (a commercial hard rock quarry) – which increased expenditure and revenue in the order of $2million per annum.

This additional revenue (and expenditure) source has skewed the results of this particular benchmark. However, when excluding this 'adjustment' Council has actually achieved a decrease in Real Operating Expenditure Per Capita over time. This decrease has been realised with a decrease in population, while sourcing an additional $300,000 in profit per annum from Glen Innes Aggregates.

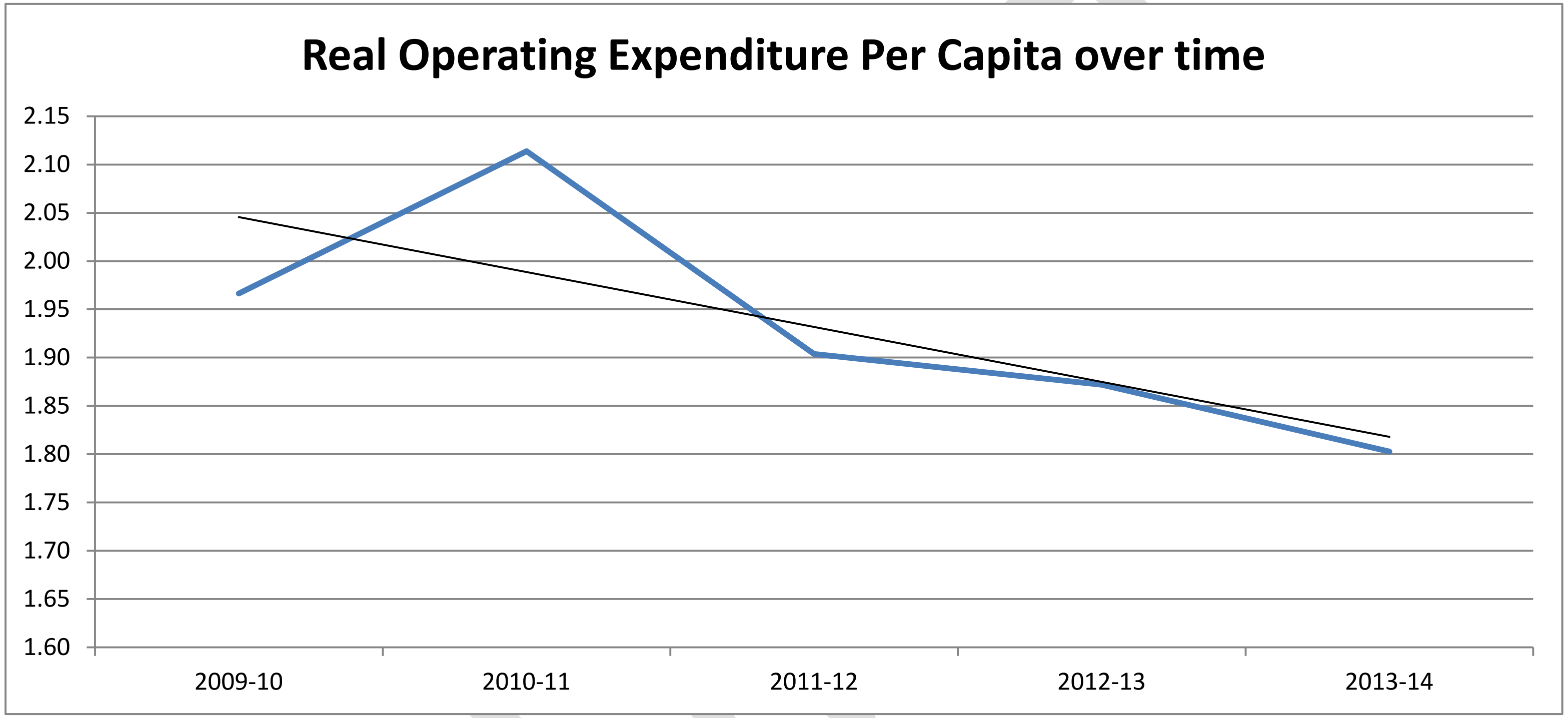
The data entered into the FFTF Self-Assessment Tool (as well as suggested one-off adjustments) is identified below:

	2009-10	2010-11	2011-12	2012-13	2013-14
# Population Data	8,933	8,925	8,907	8,904	8,905
Note 21 - Income Statement - Expenses - Total expenses from continuing operations	18,331	21,099	21,233	21,555	20,970
Flood Damage (Road Works - expenditure for year)	353	1,176	1,187	775	513
Glen Innes Aggregates	-	-	1,574	1,999	1,571
Expenditure (net of adjustments)	17,978	19,923	18,472	18,781	18,886

If this 'adjusted' data is entered into the Self-Assessment Tool – the following Graph is produced:

Benchmark:- *A decrease in Real Operating Expenditure Per Capita over time*

	2009-10	2010-11	2011-12	2012-13	2013-14
Result	1.97	2.11	1.90	1.87	1.80



Projected result 2016/17:

It is expected that Council will meet the required benchmark by 2016/17. This will largely depend on adjusting events such as those identified in the commentary above. Based on the decrease in real operating expenditure over the last four (4) years, and the additional savings identified as part of the SRV process, it is expected that Council will continue to improve its operating efficiency in this regard.

The Long Term Financial Plan (LTFP) assumptions include restrictions on the increase in operational expenditure which would see Council meet this benchmark. However, due to the budget preparation process (which can include many other considerations), and the possible effect of one-off events, it is critical that this benchmark is considered thoroughly at the point of budget preparation and adoption.

Action Plan items to ensure benchmark is met:

To ensure that Council focuses on this benchmark each budgetary year, Council will include this benchmark as part of the Operational Plan to ensure that it is clearly visible, as well as including it in the annual Financial Statements for each year. This will assist in maintaining this benchmark in the forefront of Council's considerations, when adopting the budget and reviewing the particular year's actual expenditure.

Further, action items will include a continued report on internal savings through the Savings Initiative Report (SIR) and actioning the savings identified as part of the SRV.

Suggested Action Plan items are as follows:

1. Including the Real Operating Expenditure Per Capita Ratio as part of the budgeting process and Operational Plan;
2. Including the Real Operating Expenditure Per Capita Ratio as part of the annual Audited Financial Statements;
3. Continuing to report on internal savings in the SIR;
4. Continue to improve procurement processes to ensure that Council achieves value for money;
5. Finalise the actioning of those items identified as savings as part of the SRV;
6. Ensure that the LTFP includes a decrease in operational expenditure.

2.4.1 WATER AND SEWER UTILITY PERFORMANCE

Compliance with NSW Government Best Practice Management of Water and Sewerage Framework

It should be noted that a significant part of Council's FFF strategy rests on the sustainability and profitability of the Water and Sewer Fund. Council is intending to pay efficiency dividends from both funds as recommended by the Department of Water and Energy's (DWE) (now Office of Water) *Guidelines for Best Practice Management of Water Supply and Sewerage* Permit Local Water Utilities (LWUs).

To pay these dividends from surplus, Council must meet the following six (6) best practice criteria:

1) Strategic Business Planning;
2) Pricing (including Developer Charges, Liquid Trade Waste Policy and Approvals);
3) Water Conservation;
4) Drought Management;
5) Performance Reporting;
6) Integrated Water Cycle Management (IWCM).

Council is considered to comply with the six (6) Best Practice Outcomes in that:

1) Council has adopted sound Strategic Business Plans for Water and Sewerage, including robust financial and capital works plans;
2) Council has adopted water, sewer and trade waste pricing and developer contributions plans for sewer and water, which are consistent with the requirements in the DWE guidelines;
3) Sound water conservation and demand management measures are in place;
4) Sound drought management measures are in place;
5) Council's performance reporting to Office of Water is compliant;
6) Council has completed an IWCM strategy, which strategy meets the requirements of the Office of Water.

The compliance with these items can be identified in the Office of Water annual reporting for the 2012/13 financial year, which indicated that Council is providing the highest levels of service to the community in a financially sustainable manner, at costs that are significantly lower than the median level of costs charged by other Water and Sewer Utilities in regional NSW. A few <u>very positive</u> comparison items are identified below:

Indicator	NSW Median	Glen Innes Severn Council
Average Annual Residential Water Supplied (kl per property per year)	166	133
Step 1 Water Usage charge ($ per kl)	2.08	1.98
Typical residential water bill ($ per year)	540	523
Typical residential sewer bill ($ per year)	625	434
Operating cost per property (water)	$410	$190
Operating cost per property (sewer)	$430	$120
Typical Developer Charges (water)	$5,500	$2,720
Typical Developer Charges (sewer)	$4,700	$2,850

The recent 2013-14 NSW Benchmarking Report indentifies that Council is in a reasonably good position compared with its regional neighbours with particular emphasis on a 100% compliance with Best Practice implementation for both Water and Sewer.[16]

Asset Backlog

Both the water and sewer funds have infrastructure backlogs ($2.2 million and $2.4 million respectively). These backlogs can be seen as a percentage of the total written down asset values below:

Fund	Written Down Value of Assets	Estimated cost to bring up to satisfactory	Backlog' as a percentage of Asset Replacement Cost
General Fund	171,933	19,774	11.50%
Water Fund	18,360	2,229	12.14%
Sewerage Fund	12,094	2,409	19.92%

It should be noted that the sewerage fund currently has over $2.6million in reserves, which more than exceed the identified backlog.

Furthermore, it should be noted that the Building and Infrastructure Asset Renewal Ratio for the water and sewer funds were 107.04% and 114.38% respectively in the 2014 financial year, with a capital expenditure ratio of 2.18 and 2.12 respectively.

It should also be noted that the current LTFP modelling for the Water and Sewer Fund indicates that Council is in a position to fund the full 100% asset renewal ratio (on all assets in the fund) for the full life of the LTFP (10 years).

Capital Works identified

Capital Works			
Proposed works	Timeframe	Cost	Grants or External funding
None	None	None	None

Council has largely renewed its larger water and sewer infrastructure assets in the last number of years, through projects such as;

1) Construction of the new Glen Innes Sewerage Treatment Works of $4.5million;
2) Upgrade of Deepwater Water Treatment plant;
3) Long term water storage solution for Glen Innes of $4 million. This included $970,000 in grant funding to complete an off-stream water storage facility that has now addressed the town's water security issue, with Glen Innes meeting the NSW State Government "drought proof" criteria (the 5/10/10 rule);

[16] 2013-14 NSW Benchmarking Report – Table 5 C: Water Supply Infrastructure Asset Condition and Performance – 2013-14 and Table 5 D – Sewerage Infrastructure Asset Condition and Performance.

4) Completing 7km of water and sewer pipelines for the AAFT Flight Academy development at Council's Glen Innes Airport; achieving this project at 10% under budget, on time, designed in-house, at half of the industry unit rate.

As indicated above, Council has identified that both funds are in a position to meet the asset renewal ratio over the next ten (10) years. This will see Council spend approximately $750,000 per annum for both funds in renewals and will allow Council to address the backlog with grant funding. However, there are no projects expected within the next ten (10) years, which will exceed the $1million threshold as Council has largely renewed those assets that would meet this criterion. However, the rising mains and general pipe renewals will form a significant part of the next ten (10) years.

Operating Position of the Water and Sewer Fund

Council operates both the Water and Sewer Fund at least at break-even position. The 2013/14 audited financial statements indicates the following:

Water Fund:

(iii) Cumulative surplus before Dividends for the 3 years to 30 June 2014, less the cumulative dividends paid for the 2 years to 30 June 2013 & 30 June 2012 (591,400)

2014 Surplus	38,600	2013 Surplus	(38,000)	2012 Surplus	(592,000)
		2013 Dividend	-	2012 Dividend	-

Note 2 of the Water Supply Business Special Purpose Financial Statements for the 2013/14 financial year indicates that Council has achieved basically a break-even position for the last two (2) years. In 2013 Council increased the annual charge from $150 to $250 per assessment and this has resulted in a significant improvement in the fund's operating position. Based on subsequent revenue increases and savings, Council is expecting an operating profit in the order of around $200,000 this financial year, which will be built on to allow Council to meet the required rate of return, which was 3.56% last financial year based on the Commonwealth 10 year bond rate.

Sewer Fund:

(iii) Cumulative surplus before dividends for the 3 years to 30 June 2014, less the cumulative dividends paid for the 2 years to 30 June 2013 & 30 June 2012 350,300

2014 Surplus	154,800	2013 Surplus	133,500	2012 Surplus	62,000
		2013 Dividend	-	2012 Dividend	-

Note 2 of the Sewer Supply Business Special Purpose Financial Statements for the 2013/14 financial year indicates that Council has achieved a surplus for the last three (3) years. Council is expecting an operating profit in the order of around $200,000 this financial year, which will be built on to allow Council to meet the required rate of return, which was 3.56% last financial year, based on the Commonwealth 10 year bond rate.

Therefore, Council is performing well in respect of profitability in both funds. The LTFP indicates that this will continue for the life of the plan (10 years).

Operating Position of the Water and Sewer Fund

Improvement Strategies		
Strategy	Timeframe	Anticipated Outcome
Increase Water annual charges and water usage charges by 5% per annum	Three (3) years depending on operating position	Achieve a surplus twice the allowable dividend amount based on connection numbers.
Increase Sewer annual charges by 5% per annum	Three (3) years depending on operating position	Achieve a surplus twice the allowable dividend amount based on connection numbers.

Apart from the identified strategy, which was incorporated in Council's SRV public consultation process, Council will continue to spend the required asset renewal ratio amount on assets and focus on identifying savings. However, the Water and Sewer Funds are well managed and sustainable enterprises, which add significantly to Council's scale and capacity.

3.1, 3.2, 3.3, 4.1, and 5 COUNCIL'S ACTION PLAN

This Document forms part of Council's Fit For the Future submission.

Background

The State Government has introduced a series of state-wide reforms for NSW Local Government called *Fit For the Future (FFF)*.

These reforms are intended to provide communities across the State with confidence that Local Councils are financially sound, operating efficiently and in a strong position to guide community growth and deliver quality services into the future.

All Councils in NSW must submit a proposal to the State Government by 30 June 2015, addressing criteria in the areas of scale, capacity, financial health and efficient and effective service delivery.

Glen Innes Severn Council has developed strategies to strengthen its operations and improve efficiencies. The early signs are that Council's current financials are in good shape, however, it still needs to do further work. The main strategies identified in Council's Action Plan (AP) are as follows:

1. Updating and improving its Asset Management Plans to better inform capital works and financial modelling;
2. Increasing road works with particular focus on ensuring that the condition of roads improves;
3. Increasing the size of Council's area with possible boundary adjustments to include areas such as Ben Lomond, Llangothlin, Kingsland, Kings Plains, Swanvale (part) and the remainder of the Deepwater rural locality area;
4. Focusing further on gaining efficiency and realising internal savings by limiting expenditure increase below inflation and selling unused assets;
5. Increasing particular fees and charges to ensure that it is recovering the full costs of providing services, particularly for commercial fees. This is also likely to see Water and Sewer charges increase by around 5%.

Council is in a good position to demonstrate to the NSW Government that although tough decisions had to be made, it is financially sustainable in the long term and is therefore Fit For the Future.

Scope of this Action Plan

The main focus of this Action Plan is to address the key ratios identified in Council's Proposal which are in need of improvement, namely the:

- Operating Performance Ratio;
- Own Source Revenue Ratio;
- Building and Infrastructure Renewal Ratio;
- Infrastructure Backlog Ratio;
- Asset Maintenance Ratio;
- Debt Service Ratio;
- Real Operating Expenditure Per Capita.

Other items focussed on were also identified in the submission. However, the other primary focus was the improvement of Council's Asset Management Plans from a core to an advanced level.

The AP spans the next four (4) years, but also includes the items identified for the current 2014/15 financial year which have largely already been identified as part of the Special Rate Variation (SRV) process.

It should be noted that the current position identified in Council's self assessment was for the 2013/14 financial year. Although certain savings and revenue increases have already been incorporated into that financial year the main revenue increase, being a 29.19% rate increase, had not yet been incorporated. Further, the majority of operational savings were also identified as part of the SRV process and therefore will only start to influence Council's operational expenditure in the 2014/15 financial year.

Council believes that if this document is fully implemented, it should be able to achieve all the required ratios (apart from one) within a reasonable time. The Infrastructure Backlog Ratio will take a number of years to successfully address, due to the size of the backlog that had been built up over a period of at least three (3) and a half decades (principally since the introduction of rate pegging in 1977/8). However, it is respectfully suggested that this situation is not unique to Council.

Link to Community Strategic Plan and Delivery Program

This AP has been prepared in line with the requirements of the OLG. This document now forms part of Council's Integrated Planning and Reporting Framework.

The items identified in the AP will be specifically incorporated into Council's Delivery Program (DP) and 2015/16 Operational Plan (OP). The Community Strategic Plan (CSP) will not need amendment, as this overarching document is supporting the new AP.

The AP provides Council with clear guidance on how it can achieve the outcomes required under the FFF initiative. As a result, the completion of these items should improve the ability of Council to meet community expectations under the Integrated Planning and Reporting Framework (IPRF) suite of documents.

Implementation

Overall responsibility for the implementation of this Proposal rests with Council. Council senior staff will report on progress in respect of the AP on a six (6) monthly basis; identifying progress against each of the AP items.

As mentioned above, the AP items will be incorporated into the IPRF suite of documents. Although overall "internal" responsibility for implementation rests with the General Manager, the particular officers responsible for items have been identified in the plan to ensure that actions are fully accountable, monitorable and clear.

Current Position

Council has completed the FFF Self-Assessment on Council's General Fund. This Self-Assessment is based on the 2013/14 financial year results and therefore does not include the effects of the SRV.

The current position suggests that Council only meets the Debt Service Ratio, while other ratios are below the benchmark. The benchmarks were substantially affected by the rolling average nature of the calculations – therefore savings and revenue increases in the last two (2) years were not accurately reflected.

The current position of each benchmark compared with the indicator is discussed below under each of the headings: Sustainability, Infrastructure Management, and Efficiency. The action steps are then identified to bring the ratio up to the required level. General assumptions, modelling and the major action steps are discussed as below as they affect more than one benchmark.

General assumptions

The projections are based on a reviewed LTFP using software purchased from LG Solutions Pty Ltd. The modelling which accompanies Council's projections was prepared based on a revised version of Council's earlier 2011/12, 2012/13 and 2013/14 LTFPs. The assumption upon which these LTFPs have been based were identified as reasonable by TCORP in their March 2013 review and by IPART in Council's SRV application. The general underlying assumptions are listed below:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
Operating Income											
Rate Revenue	10.02%	5.59%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(1)
Annual Charges	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	
User Charges - Specific	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Fees and Charges - Regulatory	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Fees & Charges - Other	5.00%	5.00%	5.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	(2)
Other Revenues	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Grant Revenue (General)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	(10)
Financial Assistance Grant	*0.00%*	*0.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	(3)
Roads to Recovery	*100.00%*	*-100.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(4)
Repair Program	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	(5)
Regional Roads Grant Funding	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	*3.00%*	
Operating Expenditure											
Employee Costs - Payroll	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(6)
Employee Costs - Superannuation	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(7)
Employee Costs - Other	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	
Borrowing Costs - Interest on Loans (External)											(8)
Materials & Contracts - Raw Material/Consumables	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Contracts	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Materials & Contracts - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Insurance	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Utilities	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)
Other Expenses - Other	*2.50%*	*2.50%*	*2.50%*	*2.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	(9)

Specific Notes:

(1) Rate revenue has been increased in line with the approved Special Rate Variation instrument provided by IPART titled: “Glen Innes Severn Council’s application for a special variation for 2014/15 under section 508A of *Local Government Act 1993.*” This document identifies on page 2 the identified increases of 11.21% for 2014/15, 10.02% for 2015/16 and 5.59% for 2016/17.

(2) A 5% increase in fees and charges is considered reasonable given the specific emphasis in the next three (3) years on increasing Fees and Charges – with particular emphasis on cost recovery for commercial fees. Council is undergoing an external review of Fees and Charges – prepared by Norm Headford, a Local Government Finance Consultant with significant experience. This item is also specifically identified in the associated AP as it forms a key part of increasing Own Source Revenue.

(3) The Commonwealth Financial Assistance Grant (FAG) has been reduced in line with the Federal Budget. Even though the freeze on indexation has been incorporated, given the 21% decrease in overall property valuation for the last 2013 valuation, it is expected that the revenue component of the NSW FAG calculation could be positively affected and increase Council’s FAG component. However, this has not been incorporated in the modelling.

(4) The double allocation of Roads to Recovery has been incorporated in Council’s modelling in the 2015/16 financial year as per advice received. Indexation has been frozen for the life of the LTFP as there is no certainty of future increases at this stage; which constitutes a very conservative approach.

(5) The REPAIR Program funding has been incorporated in accordance with advice received:

   a. 2015/16 – NIL
   b. 2016/17 - $131,565
   c. 2017/18 - $134,250
   d. 2018/19 - $136,935

   The funding has been incorporated thereafter with no indexation at $96,565p.a. (again, a very conservative approach).

(6) Employee costs have been incorporated at 2.5% for four (4) years primarily in line with the estimated new Local Government (State) Award 2014 increases and poor current economic climate – low inflation/CPI etc., thereafter at 3.5% for the life of the plan.

(7) Employee superannuation has been incorporated at 3.5% (compared with salaries of 2.5%) to account for increases in the Super Guarantee Charge – however, this may not eventuate depending on Federal Government priorities. It has been budgeted to ensure that any increases have been incorporated.

(8) Borrowing costs have been incorporated in accordance with Council’s fixed loan borrowing portfolio and in line with Council’s actual principal repayments and interest due. New loans have been incorporated at 3.8% (in line with advice received from quotes from major banks). No new loans have been budgeted after this financial year and therefore no interest rate estimate is required for these for future years.

(9) Materials and Contracts and other Expenditure has been increased by 2.5% for the next four (4) years in line with the requirements of the AP. This is believed to be reasonable given the prior year's restrictions being met within Council's operational budgets. Thereafter, increases are returned to 3.5%.

(10) Other grant revenue has been increased by 3% (only for re-occurring grant revenue). One-off or specific capital project grant funding has been excluded and no increases have been incorporated, unless Council is confident that funding is to be received.

Strategy specific modelling:

The AP includes specific but overarching strategies to improve Council's ratios. These strategies will generally affect more than one of the particular ratios identified. These overarching strategies are as follows:

(A) Updating and improving Council's Asset Management Plans to better inform its capital works and financial modelling.

The recent *NSW Local Government Infrastructure Audit Report* investigated Council's relative strength in respect of:

- Infrastructure management assessment;
- Financial position;
- Community infrastructure needs; and
- Council capacity.

The rating identified for Council when considering these four areas was "Weak'. The rating 'schedule' identified a weak Council as follows:

Weak	BTS = 5-10 years of annual revenue	Actual maintenance < 80% of required maintenance	10 years Cumulative Forecast Surpluses (after capital) is < 75% of BTS amount	Basic information on current status and condition of infrastructure	Strategies, AMPS, Asset Registers, LOS, yearly asset inspections - some asset classes	Some evidence of asset lifecycle costing with funding gaps for most asset classes; some deficit results before capital

The rating identified for Council suggests that apart from the funding shortfall, there are also shortfalls within the other requirements, such as basic information on current status and condition of infrastructure, yearly asset inspections on some asset classes only, and some evidence of asset lifecycle costing.

Based on the items identified, it is imperative that Council improves the quality of the Asset Management Plans from core to an advanced level. Council acknowledges that this is a significant process and although core plans are in place, developing these plans to a truly advanced level will take time and significant staff resources. Therefore, the development of advanced plans has been 'scheduled' over a few years to provide adequate time for full asset inspections/condition assessments. The schedule is identified in the AP under IS 1.3 and 1.4 below.

The main focus of this action item is to provide the following information:

1. Fully reliable, comparable and monitorable Special Schedule 7, including required asset maintenance and a fully costed asset infrastructure backlog (that can be tracked with CPI), that can stand up to external audit and can be compared with industry benchmarks, i.e. IPWEA RABM/ Rawlinson's etc.
2. Full identification of assets and renewal options (identifying what needs to be renewed and what should not).
3. Depreciation calculations that are in line with actual use, actual replacement cost and actual service levels and are comparable with other LGA's;
4. Clear identification of projects annually based on 'condition' data that matches what can be seen on the ground;
5. Developing a pro-active rather than re-active maintenance schedule for asset classes;
6. Developing more efficient maintenance programs;
7. Better informing the Asset Maintenance Ratio and Building and Infrastructure Renewal Ratio.

It is expected that the requirements of the AP are realistic and if properly timed, will improve efficiency of asset maintenance and renewal. It should be noted that the underlying assumptions of the AMP's are expected to be reasonably accurate and provide a good indication of the required maintenance, actual depreciation and infrastructure backlog. However, it remains for Council to develop these plans to a point where it can rely on them unreservedly.

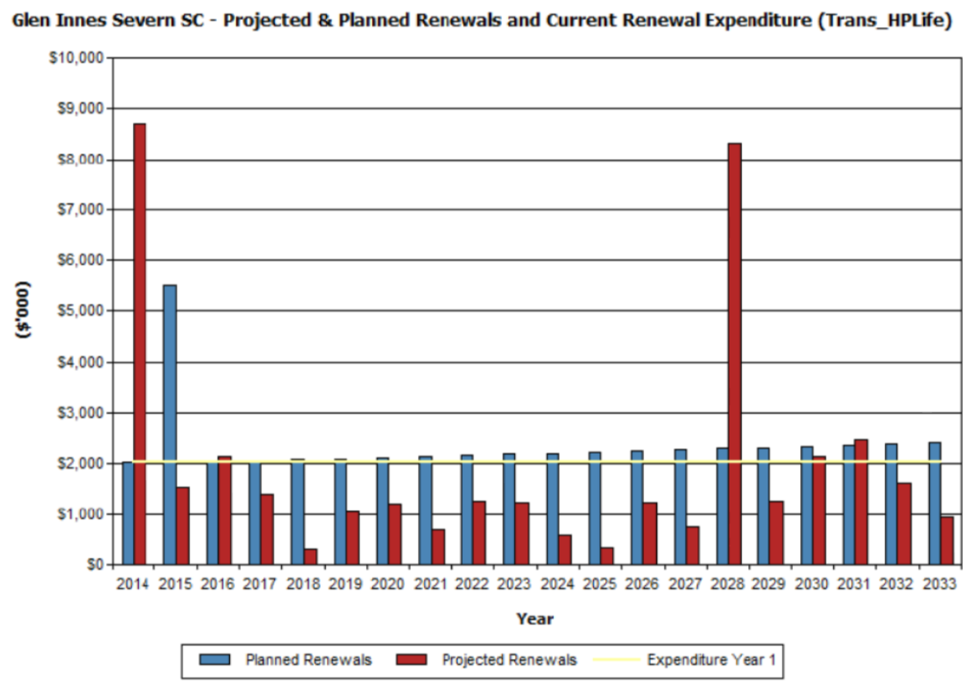
(B) The approved Special Rate Variation (SRV) of 29.19% and Local Infrastructure Renewal Scheme (LIRS) Funding of $5million.

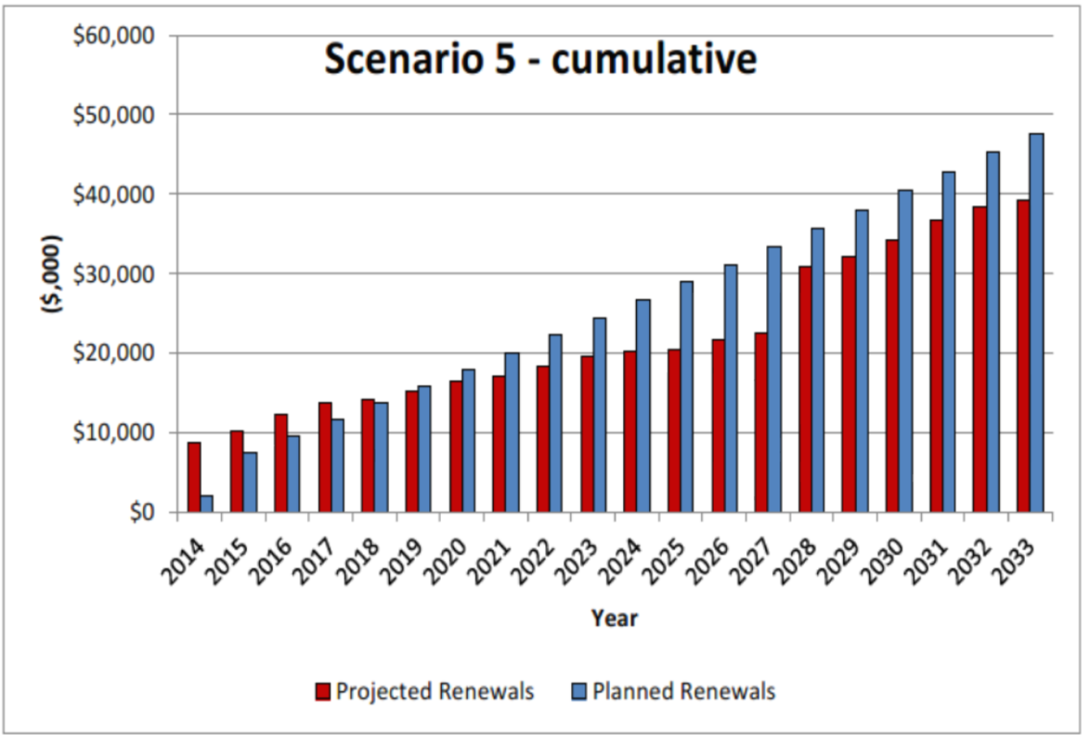
Council has been successful in its application for an SRV under section 508A of *Local Government Act 1993.* For this reason Council has increased its rates projections by 11.21% for 2014/15, 10.02% for 2015/16 and 5.59% for 2016/17. The total annual revenue expected, based on this SRV, is just short of $1million. This increase will be spent entirely on Roads and Bridges (which includes loan repayments and interest under the LIRS scheme).

This SRV, combined with the two new LIRS funded loans totalling $5million, will address the entire backlog identified under the bridges asset category, as well as approximately $1million in road infrastructure backlog. This reduction in backlog because of the LIRS funding is expected to reduce the backlog by at least 25% (being $5million compared with a total General Fund backlog of $19.8million).

Furthermore, based on the Asset Management Plan (Transport) amended as part of the approved SRV application in 2013/14, the additional spend identified as part of the LTFP will address the infrastructure backlog in due course, with required renewals being exceeded by actual renewals. This is portrayed by Figure 8b on page 42 of the Asset Management Plan (Transport), as follows:

Fig 8b. Projected and Planned Renewals and Current Renewal Expenditure (Scenario 5)





For this particular asset class, Council is therefore making good progress and there is a clear positive trend.

(C) Increasing the size of Council's area with possible boundary adjustments to include areas such as Ben Lomond, Llangothlin, Kingsland, Kings Plains, Swanvale (part) and the remainder of the Deepwater rural locality area.

As part of Council's consideration of strategic scale and capacity, Council has adopted a resolution (Resolution 3.12/14) to investigate the possible extension of Council's boundaries in line with clearly identified communities of interest. A map of the proposed adjustments is attached as Annexure 1.

These adjustments have been discussed with the relevant parties (Guyra Shire, Armidale Dumaresq, Inverell Shire and Tenterfield Shire Councils) and there is some in-principle agreement. The aim of increasing Council's boundary areas in line with these communities of interest is to increase Council's financial and strategic scale and capacity, as well as establishing an LGA where there is a true "sense of place" and "belonging" – founded on established communities of interest.

Based on preliminary estimates, it is expected that Council's rate revenue and asset maintenance requirements would be impacted as follows:

Expected impact of identified boundary adjustments								
	Local Unsealed	Local Sealed	Regional	State		Total Expenditure	Total Revenue	Total "Profit"
Tenterfield	33,267	24,117			57,384	88,527	49,290	-39,237
	10,631	20,512			31,143			
Inverell	111,527				111,527	147,166	294,871	147,705
	35,639				35,639			
Guyra	266,621	171,152	116,200		553,972	851,589	638,530	213,060
	85,201	145,569	66,847		297,617		183,047	183,047
Total	542,886	361,349	183,047		1,087,282	1,087,282	1,165,738	78,455

Notes:

- Regional roads are fully funded, therefore, the additional cost for these roads is irrelevant, as they will simply contribute to improved renewal ratios and organisational scale and capacity in respect of Council's road works function.

- All properties have been excluded with a nil valuation (such as Crown/State land).
- Ad-valorem and Base amounts have been applied to farmland rating as per 2014/15 projections, with a 13.4% increase in line with the Special Rate Variation increase.
- Ad-valorem and minimum amounts have been applied to residential non-urban rating as per 2014/15 projections with an 8.4% increase in line with the Special Rate Variation increase.
- All properties below 40 Hectares were categorised as Residential Non-Urban and those above as Farmland.
- Rate projections are based on existing rates (current Council Ad-valorem/Base or Minimum amounts). This will be the carried forward notional general income figure.

The projections indicate that there is little gain (or profit) to be made from these boundary adjustments. However, Council is primarily interested in growing its scale and capacity – particularly in respect of its heavy plant fleet and engineering services. The additional $1million in maintenance and capital expenditure is expected to have that effect.

Other projected benefits to Council include:

1. Increasing population by an estimated 700 individuals;
2. Improving Council's Own Source Revenue Ratio by approximately 5% due to the increase in rating revenue;
3. Council's Asset Maintenance and Building and Infrastructure Renewal Ratios are expected to improve due to the capital and asset maintenance being fully funded by rates. Other expenditure is not expected to increase, as residents within these identified areas already use Council's services, because of the existing strong communities of interest.
4. Creating a strong, cohesive LGA with a discernible sense of place and locality because of the above-mentioned communities of interest.

It should be noted that the proposed boundary adjustments <u>have not</u> been included in Council's projections used for this FFF Proposal.

(D) Focusing further on gaining efficiency and realising internal savings by limiting expenditure increase below inflation and selling unused assets.

Over the last few years, Council has embarked on an effective review of operational expenditure; with a specific emphasis on reducing expenditure that does not contribute to desired community outcomes.

This has been driven as part of the SRV process in an attempt to match operational savings with increases in rates.

All savings have been identified in a Savings Initiative Report (SIR). The most significant savings achieved, combined with those identified for future years, are mentioned under the "Efficiency" heading towards the end of the document.

The combined savings are expected to contribute approximately $1million pa. Those that were already incorporated in earlier years have not been included in the above-mentioned list.

Savings have been incorporated in the LTFP where Council is certain that a saving will be realised. Where suggestions have not been fully implemented, or are not measureable, they have not been included. For example, Council can track the effectiveness of the "overtime claim form" initiative – being the difference between pay period to pay period before and after implementation. Therefore, Council can realistically include this saving in its LTFP. However, a saving such as the "Acting in Higher Grade Position" is much harder to track and therefore it simply contributes to the confidence associated with the 2.5% salary increase identified, but is not specifically included as a saving.

Other projected benefits to Council include:

1. Improving Council's operating position (and Operating Performance Ratio);
2. Enabling Council to meet the limited expenditure increases included in the LTFP and thereby meeting the Real Operating Expenditure Per Capita Ratio;
3. Providing Council with additional savings which can and have been re-directed into Asset Maintenance (thereby improving Council's Asset Maintenance Ratio.)

It should be noted that this initiative has allowed Council to increase Road and Bridge Maintenance by 10% for each of the last two years. Council is aiming at continuing to implement these increases until the Asset Maintenance Ratio is met.

(E) Increasing particular fees and charges to ensure Council is recovering its full costs of providing these services, particularly for commercial fees.

Council has a clear focus on increasing its fees and charges by 5% year on year for the next three (3) years. As part of this process, Council has had its Fees and Charges register reviewed by Norm Headford, an experienced Local Government Finance consultant. The aim of this review is to compare Council's Fees and Charges with neighbouring Councils, identifying new fees and increasing fees in line with cost recovery principles, particularly for commercial fees.

The primary purpose of this increase is:

1. Improving Council's operating position (and Operating Performance Ratio);

2. Improving Council's Own Source Operating Revenue Ratio;
3. Providing Council with additional revenue which can and has been re-directed into Asset Maintenance (thereby improving Council's Asset Maintenance and Renewal Ratios).

Based on this clear focus, a 5% increase in fees and charges (apart from those set by statute) has been included in the LTFP projections.

(F) Increasing Water and Sewer Charges to pay a commercial return to the General Fund, in the form of dividends along with a debt guarantee fee on commercial loans.

Council has in May 2014 resolved (Resolution 7.05/14) to approve the payment of dividends to the General Fund from the Water and Sewer Funds for future years, as a return on equity similar to a commercial enterprise.

A Local Water Utility which demonstrates best practice management by achieving the outcomes required by the NSW Best Practice Management of Water Supply and Sewerage Framework will have effective and sustainable water supply and sewerage businesses.

The NSW Best Practice Management Framework is the key driver for planning and management reform and for continuous performance improvement. The 19 requirements of the Framework are shown in the Best-Practice Management of Water Supply and Sewerage Guidelines, which involve the following elements:

- Integrated Water Cycle Management;
- Strategic business planning;
- Regulation and pricing of water supply, sewerage and trade waste:
  - Pricing;
  - Developer charges;
  - Liquid trade waste;
- Water conservation;
- Drought management;
- Performance monitoring.

Compliance with the NSW Best-Practice Management Framework is a prerequisite for payment of an 'efficiency dividend' from the surplus of a utility's water supply or sewerage business to Council's general revenue. Local water utilities are encouraged by the NSW Office of Water to pay such a dividend, which will move them towards 'upper bound' pricing – which is required under the National Water Initiative where practicable.

The NSW Office of Water Performance Monitoring Report for 2012-2013 confirms that Glen Innes Severn Council has met 100% of the best practice requirements.

Quantum of dividend

The aforementioned Guidelines specify that the dividend from surplus must not exceed 50% of the surplus in any one (1) year, with a maximum of $30 per assessment less a mandatory dividend for tax equivalents (currently a maximum of $3 per assessment). Also, the total dividend from surplus paid in each rolling three (3) year period does not exceed the total relevant surplus in that period. The maximum additional dividend which could be paid is therefore $27 per assessment for each of the years when these criteria are met. Based on the total assessments for Water and Sewer, total maximum dividends achievable are $101,838 for Sewer and $108,240 for Water. However, total amounts will be limited based on total surplus and the cumulative surplus. The affordability of these dividends has been considered as part of Council's LTFP modelling for the Water and Sewer Fund.

At this point in time, Council will need to focus on increasing the operating surplus within its Water and Sewer Fund by increasing annual charges (and water usage charges) for three (3) consecutive years by 5%. It should be noted that the increase of fees and charges in the water and sewer funds formed part of Council's SRV application and the community consultation associated with it.

Inclusion in the LTFP

The 5% increase in fees and charges for Water and Sewer was included in the modelling for the respective funds when determining the affordability of future dividends. The dividends included in the LTFP from these funds into the General Fund are identified below:

Fund	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Water Fund	59,040	111,487	114,832	118,277	121,825	125,480	129,244	133,122	137,115	141,229
Sewer Fund	101,838	104,893	108,040	111,281	114,620	118,058	121,600	125,248	129,005	132,875
Total	**160,878**	**216,380**	**222,872**	**229,558**	**236,445**	**243,538**	**250,844**	**258,369**	**266,121**	**274,104**

The total dividend is estimated to annually increase by 3% based on the expected increase in population – primarily based on factors such as the AAFT development (as water connections, which is the chief limiting factor on total dividends payable are assumed to track with3% growth).

It should be noted that the total dividend includes the mandatory $3 per assessment tax equivalent dividend, which is already payable.

A copy of this report, which considers affordability, asset backlog and the relative position of each of the funds, is attached as Annexure 4.

Debt Guarantee Fee

A 'debt guarantee fee' has been included in the Water and Sewer Funds projections, based on a 3% margin on those loans secured under Clause 229 of the *Local Government (General) Regulations 2005* as a charge on Council income, compared with commercial ventures such as the Water and Sewer Funds. This has been paid from the Water and Sewer Funds to the General Fund based on actual loan interest incurred and paid each year. This total amounts to approximately $130,000 per annum, combined for both funds.

(G)The commercial return on Glen Innes Aggregates and the review by Ecoroc Pty Ltd

In August 2011, Council purchased a basalt hard rock quarry, renamed Glen Innes Aggregates, which supplies the majority of the LGA's sealing aggregates, including that of Council and NSW Roads and Maritime Services. The business was purchased as part of a package deal; and included the pits which were the basis for Council's long term water storage solution.

Council continued to manage the quarry after purchase for two (2) years, using the existing operating methodology; being a fixed crushing plant. The aged crusher and run down plant resulted in large repair and maintenance costs with negative effect on the profit margin.

In September 2013, Council adopted a reviewed Business Plan prepared by Ecoroc, a consulting firm specialising in quarries. The business planning process investigated a number of operating models and quarry best practice. Stemming from Ecoroc's recommendations, a "lean" business model was adopted – utilising contracting services for drilling, blasting and crushing operations and dispensing with non-core activities. Therefore, the plan involved moving away from a fixed plant operation to a campaign crushing model, utilising a mobile crushing plant (which was to be outsourced). Apart from the projected improvement in profitability, the Business Plan also resolved a number of Workplace Health and Safety issues.

The Business Plan constituted a significant change to the original model and was projected to reduce fixed costs considerably; resulting in a projected profit of around $375,000 per annum.

The first year of implementation of the new business plan (with some transition) was the 2014/15 financial year, and indications are that Council will achieve a profit in the order of $300,000 this financial year. This should be compared with the earlier year profits of $360,000 in 2011/12, $262,000 in 2012/13 and $121,000 in 2013/14.

Inclusion in the LTFP

It is expected that a profit of $350,000 pa will be possible, and likely, for future years and this has been incorporated into the LTFP projections. The above $2million in turnover through sales is also expected to result in an improvement in Council's Own Source Operating revenue ratio. This Category 1 Business Unit also provides additional financial scale and capacity by reducing the administration and governance component on other Council functions.

Geological testing has indicated that at least 10 years of commercially viable reserves remain in this site.

Current position and projections:

Measure / benchmark	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	ACTUAL	PROJECTED BASED ON REVISED LTFP MODELLING				
Operating Performance Ratio (Greater than or equal to breakeven average over 3 years)	✗	✓	✓	✓	✓	✓
	-3.1%	1.07%	5.86%	4.36%	5.14%	5.37%
Own Source Revenue Ratio (Greater than 60% average over 3 years)	✗	✓	✓	✓	✓	✓
	50.21%	59.86%	60.80%	62.78%	62.90%	63.03%
Building and Infrastructure Asset Renewal Ratio (Greater than 100% average over 3 years)	✗	✓	✓	✓	✓	✓
	84.47%	245.91%	182.63%	103.28%	103.78%	104.79%
Infrastructure Backlog Ratio (Less than 2%)	✗	✗	✗	✗	✗	✗
	11.50%	9%	8%	8%	8%	8%
Asset Maintenance Ratio (Greater than 100% average over 3 years)	✗	✓	✓	✓	✓	✓
	78.89%	103.%	117%	117%	117%	117%
Debt Service Ratio (Greater than 0% and less than or equal to 20% average over 3 years)	✓	✓	✓	✓	✓	✓
	4.14%	8.07%	11.15%	10.48%	9.88%	9.34%
Real Operating Expenditure Per Capita (A decrease in Real Operating Expenditure per capita over time)	✗	✓	✓	✓	✓	✓
	Increasing	Decreasing	Decreasing	Decreasing	Decreasing	Decreasing

LTFP Action Plan Modelling:

Glen Innes Severn Council												
10 Year Financial Plan for the Years ending 30 June 2025												
INCOME STATEMENT - GENERAL FUND	Actuals	Current Year	Projected Years									
Scenario: Glen Innes Severn Council	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Income from Continuing Operations												
Revenue:												
Rates & Annual Charges	6,392	6,836	7,424	7,807	8,049	8,299	8,556	8,822	9,096	9,378	9,669	9,969
User Charges & Fees	1,407	1,292	1,349	1,408	1,471	1,520	1,571	1,624	1,678	1,734	1,793	1,853
Interest & Investment Revenue	578	407	1,028	1,063	1,094	1,111	1,128	1,146	1,164	1,182	1,201	1,219
Other Revenues	851	2,122	1,448	1,481	1,515	1,550	1,587	1,625	1,665	1,706	1,749	1,793
Grants & Contributions provided for Operating Purposes	8,925	8,100	8,610	8,248	8,477	8,709	8,913	9,159	9,413	9,674	9,944	10,221
Grants & Contributions provided for Capital Purposes	1,639	582	82	85	87	90	93	96	98	101	104	108
Other Income:												
Net gains from the disposal of assets	6	-	39	39	39	39	39	39	39	39	39	39
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**19,798**	**19,339**	**19,981**	**20,131**	**20,732**	**21,318**	**21,888**	**22,511**	**23,153**	**23,815**	**24,498**	**25,201**
Expenses from Continuing Operations												
Employee Benefits & On-Costs	8,265	7,498	7,597	7,815	8,040	8,271	8,560	8,860	9,170	9,491	9,823	10,167
Borrowing Costs	585	571	685	631	577	524	470	417	363	309	255	201
Materials & Contracts	3,530	4,764	4,655	4,791	4,930	5,130	5,337	5,551	5,772	6,001	6,239	6,484
Depreciation & Amortisation	4,433	4,199	4,310	4,418	4,488	4,580	4,679	4,776	4,873	4,968	5,062	5,155
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	2,597	1,524	1,448	1,479	1,510	1,547	1,585	1,623	1,663	1,704	1,745	1,788
Interest & Investment Losses	-	-	-	-	-	-	-	-	-	-	-	-
Net Losses from the Disposal of Assets	-	576	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**19,410**	**19,132**	**18,696**	**19,135**	**19,546**	**20,052**	**20,631**	**21,227**	**21,841**	**22,473**	**23,125**	**23,795**
Operating Result from Continuing Operations	**388**	**207**	**1,286**	**997**	**1,186**	**1,266**	**1,257**	**1,284**	**1,312**	**1,342**	**1,373**	**1,406**
Discontinued Operations - Profit/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit/(Loss) from Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Result for the Year	**388**	**207**	**1,286**	**997**	**1,186**	**1,266**	**1,257**	**1,284**	**1,312**	**1,342**	**1,373**	**1,406**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**(1,251)**	**(375)**	**1,203**	**912**	**1,099**	**1,176**	**1,164**	**1,188**	**1,214**	**1,240**	**1,269**	**1,299**

Glen Innes Severn Council												
10 Year Financial Plan for the Years ending 30 June 2025												
BALANCE SHEET - GENERAL FUND	Actuals	Current Year	Projected Years									
Scenario: Glen Innes Severn Council	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS												
Current Assets												
Cash & Cash Equivalents	11,745	13,744	12,049	12,512	13,070	13,650	14,163	14,635	15,062	15,437	15,752	16,200
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	852	1,035	1,007	1,018	1,046	1,069	1,091	1,116	1,140	1,166	1,192	1,219
Inventories	535	1,159	1,137	1,165	1,194	1,236	1,279	1,324	1,370	1,418	1,468	1,519
Other	-	21	20	21	21	22	23	23	24	25	26	27
Non-current assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	13,132	15,959	14,213	14,716	15,331	15,976	16,556	17,098	17,597	18,045	18,437	18,965
Non-Current Assets												
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	177	177	177	177	177	177	177	177	177	177	177	177
Inventories	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure, Property, Plant & Equipment	204,128	212,484	219,550	224,140	228,823	233,579	238,406	243,308	248,288	253,352	258,503	263,746
Investments Accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Investment Property	170	170	170	170	170	170	170	170	170	170	170	170
Intangible Assets	-	-	-	-	-	-	-	-	-	-	-	-
Non-current assets classified as "held for sale"	82	82	82	82	82	82	82	82	82	82	82	82
Other	59	69	67	68	70	72	75	77	80	82	85	88
Total Non-Current Assets	204,616	212,982	220,046	224,638	229,322	234,080	238,910	243,814	248,797	253,863	259,017	264,263
TOTAL ASSETS	217,748	228,941	234,259	239,353	244,653	250,057	255,466	260,912	266,394	271,909	277,454	283,228
LIABILITIES												
Current Liabilities												
Bank Overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Payables	1,450	1,427	1,382	1,395	1,407	1,428	1,450	1,473	1,497	1,523	1,549	1,581
Borrowings	479	1,014	1,021	1,030	1,040	1,051	1,063	1,077	1,092	1,108	930	342
Provisions	2,780	2,791	2,791	2,791	2,791	2,791	2,791	2,791	2,791	2,791	2,791	2,791
Liabilities associated with assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	4,709	5,232	5,194	5,216	5,237	5,269	5,303	5,340	5,380	5,422	5,270	4,714
Non-Current Liabilities												
Payables	-	1	1	1	1	1	1	1	1	1	1	2
Borrowings	6,328	11,681	10,659	9,629	8,590	7,539	6,476	5,400	4,308	3,200	2,270	1,928
Provisions	453	458	473	489	504	520	535	551	567	582	598	613
Investments Accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities associated with assets classified as "held for sale"	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Current Liabilities	6,781	12,140	11,134	10,120	9,096	8,060	7,013	5,952	4,876	3,783	2,869	2,543
TOTAL LIABILITIES	11,490	17,372	16,328	15,335	14,333	13,330	12,316	11,292	10,255	9,205	8,139	7,256
Net Assets	206,259	211,569	217,931	224,018	230,320	236,727	243,149	249,620	256,138	262,704	269,315	275,972
EQUITY												
Retained Earnings	115,997	116,205	117,491	118,487	119,674	120,940	122,197	123,481	124,793	126,135	127,508	128,914
Revaluation Reserves	90,261	95,364	100,440	105,531	110,646	115,787	120,953	126,139	131,346	136,569	141,807	147,058
Council Equity Interest	206,259	211,569	217,931	224,018	230,320	236,727	243,149	249,620	256,138	262,704	269,315	275,972
Minority Equity Interest	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	206,259	211,569	217,931	224,018	230,320	236,727	243,149	249,620	256,138	262,704	269,315	275,972

Glen Innes Severn Council												
10 Year Financial Plan for the Years ending 30 June 2025												
EQUITY STATEMENT - GENERAL FUND	Actuals	Current Year	Projected Years									
Scenario: Glen Innes Severn Council	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Opening Balance	206,695	206,259	211,569	217,931	224,018	230,320	236,727	243,149	249,620	256,138	262,704	269,315
a. Current Year Income & Expenses Recognised direct to Equity												
- Transfers to/(from) Asset Revaluation Reserve	(789)	5,103	5,076	5,090	5,115	5,141	5,165	5,187	5,206	5,224	5,238	5,250
- Transfers to/(from) Other Reserves	-											
- Other Income/Expenses recognised	-											
- Other Adjustments	(36)											
Net Income Recognised Directly in Equity	(825)	5,103	5,076	5,090	5,115	5,141	5,165	5,187	5,206	5,224	5,238	5,250
b. Net Operating Result for the Year	388	207	1,286	997	1,186	1,266	1,257	1,284	1,312	1,342	1,373	1,406
Total Recognised Income & Expenses (c&d)	(437)	5,311	6,362	6,087	6,302	6,407	6,422	6,471	6,518	6,565	6,611	6,657
c. Distributions to/(Contributions from) Minority Interests	-											
d. Transfers between Equity	-											
Equity - Balance at end of the reporting period	206,259	211,569	217,931	224,018	230,320	236,727	243,149	249,620	256,138	262,704	269,315	275,972

Glen Innes Severn Council												
10 Year Financial Plan for the Years ending 30 June 2025												
CASH FLOW STATEMENT - GENERAL FUND	Actuals	Current Year					Projected Years					
Scenario: Glen Innes Severn Council	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash Flows from Operating Activities												
Receipts:												
Rates & Annual Charges	-	6,821	7,422	7,806	8,049	8,298	8,556	8,821	9,095	9,377	9,668	9,968
User Charges & Fees	-	1,575	1,330	1,388	1,449	1,503	1,553	1,606	1,659	1,715	1,773	1,832
Interest & Investment Revenue Received	-	350	1,035	1,056	1,088	1,105	1,122	1,140	1,158	1,177	1,196	1,213
Grants & Contributions	-	8,489	8,693	8,341	8,559	8,794	9,001	9,249	9,506	9,770	10,042	10,322
Bonds & Deposits Received	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	1,893	1,481	1,488	1,515	1,551	1,588	1,626	1,665	1,707	1,749	1,793
Payments:												
Employee Benefits & On-Costs	-	(7,498)	(7,597)	(7,815)	(8,040)	(8,271)	(8,560)	(8,860)	(9,170)	(9,491)	(9,823)	(10,167)
Materials & Contracts	-	(5,467)	(4,656)	(4,798)	(4,937)	(5,141)	(5,348)	(5,563)	(5,785)	(6,014)	(6,252)	(6,498)
Borrowing Costs	-	(460)	(688)	(634)	(580)	(527)	(474)	(420)	(367)	(314)	(260)	(202)
Bonds & Deposits Refunded	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	(1,565)	(1,438)	(1,468)	(1,499)	(1,535)	(1,573)	(1,611)	(1,651)	(1,691)	(1,733)	(1,775)
Net Cash provided (or used in) Operating Activities	-	4,139	5,580	5,364	5,603	5,776	5,865	5,988	6,112	6,236	6,360	6,487
Cash Flows from Investing Activities												
Receipts:												
Sale of Investment Securities	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Investment Property	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Real Estate Assets	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Infrastructure, Property, Plant & Equipment	-	1,148	153	159	164	170	176	182	188	195	202	209
Sale of Interests in Joint Ventures & Associates	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Intangible Assets	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Debtors Receipts	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Disposal Groups	-											
Distributions Received from Joint Ventures & Associates	-	-	-	-	-	-	-	-	-	-	-	-
Other Investing Activity Receipts	-											
Payments:												
Purchase of Investment Securities	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Investment Property	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Infrastructure, Property, Plant & Equipment	-	(9,176)	(6,414)	(4,039)	(4,180)	(4,326)	(4,478)	(4,634)	(4,796)	(4,964)	(5,138)	(5,318)
Purchase of Real Estate Assets	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Intangible Assets	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Debtors & Advances Made	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Interests in Joint Ventures & Associates	-	-	-	-	-	-	-	-	-	-	-	-
Contributions Paid to Joint Ventures & Associates	-	-	-	-	-	-	-	-	-	-	-	-
Other Investing Activity Payments	-											
Net Cash provided (or used in) Investing Activities	-	(8,028)	(6,261)	(3,880)	(4,016)	(4,156)	(4,302)	(4,452)	(4,608)	(4,769)	(4,936)	(5,109)
Cash Flows from Financing Activities												
Receipts:												
Proceeds from Borrowings & Advances	-	6,500	-	-	-	-	-	-	-	-	-	-
Proceeds from Finance Leases	-	-	-	-	-	-	-	-	-	-	-	-
Other Financing Activity Receipts	-											
Payments:												
Repayment of Borrowings & Advances	-	(612)	(1,014)	(1,021)	(1,030)	(1,040)	(1,051)	(1,063)	(1,077)	(1,092)	(1,108)	(930)
Repayment of Finance Lease Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Distributions to Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-
Other Financing Activity Payments	-											
Net Cash Flow provided (used in) Financing Activities	-	5,888	(1,014)	(1,021)	(1,030)	(1,040)	(1,051)	(1,063)	(1,077)	(1,092)	(1,108)	(930)
Net Increase/(Decrease) in Cash & Cash Equivalents	-	1,998	(1,694)	463	558	580	513	472	427	375	316	448
plus: Cash, Cash Equivalents & Investments - beginning of year	-	11,745	13,744	12,049	12,512	13,070	13,650	14,163	14,635	15,062	15,437	15,752
Cash & Cash Equivalents - end of the year	11,745	13,744	12,049	12,512	13,070	13,650	14,163	14,635	15,062	15,437	15,752	16,200
Cash & Cash Equivalents - end of the year	11,745	13,744	12,049	12,512	13,070	13,650	14,163	14,635	15,062	15,437	15,752	16,200
Investments - end of the year	-	-	-	-	-	-	-	-	-	-	-	-
Cash, Cash Equivalents & Investments - end of the year	11,745	13,744	12,049	12,512	13,070	13,650	14,163	14,635	15,062	15,437	15,752	16,200

Representing:

Glen Innes Severn Council												
10 Year Financial Plan for the Years ending 30 June 2025												
INCOME STATEMENT - QUARRY FUND	Actuals	Current Year	Projected Years									
Scenario: Action Plan Implementation	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$	$	$	$	$	$	$	$	$	$	$	$
Income from Continuing Operations												
Revenue:												
Rates & Annual Charges	-	-	-	-	-	-	-	-	-	-	-	-
User Charges & Fees	128,000	2,150,801	2,082,760	2,145,242	2,209,600	2,275,888	2,344,164	2,414,489	2,486,924	2,561,532	2,638,378	2,717,529
Interest & Investment Revenue	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenues	1,534,000	143,000	147,290	151,709	156,260	160,948	165,776	170,749	175,872	181,148	186,583	192,180
Grants & Contributions provided for Operating Purposes	5,000	-	-	-	-	-	-	-	-	-	-	-
Grants & Contributions provided for Capital Purposes	-	-	-	-	-	-	-	-	-	-	-	-
Other Income:												
Net gains from the disposal of assets	24,000	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	1,691,000	2,293,801	2,230,050	2,296,951	2,365,860	2,436,835	2,509,940	2,585,239	2,662,796	2,742,680	2,824,960	2,909,709
Expenses from Continuing Operations												
Employee Benefits & On-Costs	528,000	136,206	140,973	145,907	151,014	156,300	161,770	167,432	173,292	179,357	185,635	192,132
Borrowing Costs	-	105,248	128,163	123,674	84,184	79,694	75,204	70,714	66,225	61,735	57,245	52,755
Materials & Contracts	844,000	1,623,065	1,451,356	1,499,924	1,550,191	1,602,218	1,656,065	1,711,798	1,769,481	1,829,183	1,890,974	1,954,928
Depreciation & Amortisation	14,000	20,540	20,540	20,540	20,540	20,540	20,540	20,540	20,540	20,540	20,540	20,540
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	184,000	158,150	161,314	164,542	167,835	171,193	174,619	178,113	181,677	185,312	189,021	192,803
Interest & Investment Losses	-	-	-	-	-	-	-	-	-	-	-	-
Net Losses from the Disposal of Assets	-	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	1,570,000	2,043,209	1,902,347	1,954,587	1,973,764	2,029,944	2,088,198	2,148,597	2,211,214	2,276,127	2,343,414	2,413,158
Operating Result from Continuing Operations	121,000	250,591	327,702	342,364	392,096	406,891	421,742	436,642	451,582	466,553	481,546	496,551
Discontinued Operations - Profit/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit/(Loss) from Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Result for the Year	121,000	250,591	327,702	342,364	392,096	406,891	421,742	436,642	451,582	466,553	481,546	496,551
Net Operating Result before Grants and Contributions provided for Capital Purposes	121,000	250,591	327,702	342,364	392,096	406,891	421,742	436,642	451,582	466,553	481,546	496,551

Glen Innes Severn Council												
10 Year Financial Plan for the Years ending 30 June 2025												
INCOME STATEMENT - WATER FUND	**Actuals**	**Current Year**	**Projected Years**									
Scenario: Action Plan Implementation	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Income from Continuing Operations												
Revenue:												
Rates & Annual Charges	845,000	871,423	914,994	960,744	1,008,781	1,039,045	1,070,216	1,102,322	1,135,392	1,169,454	1,204,537	1,240,674
User Charges & Fees	980,000	993,777	1,043,466	1,095,639	1,150,421	1,184,934	1,220,482	1,257,096	1,294,809	1,333,653	1,373,663	1,414,873
Interest & Investment Revenue	30,000	101,750	52,710	53,180	53,654	54,133	54,617	55,105	55,599	56,097	56,601	57,109
Other Revenues	-	269	277	285	294	303	312	321	331	341	351	362
Grants & Contributions provided for Operating Purposes	38,000	60,164	61,968	63,828	65,742	67,715	69,746	71,838	73,994	76,213	78,500	80,855
Grants & Contributions provided for Capital Purposes	5,000	1,240,494	15,000	15,450	15,913	16,391	16,883	17,389	17,911	18,448	19,002	19,572
Other Income:												
Net gains from the disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**1,898,000**	**3,267,876**	**2,088,416**	**2,189,126**	**2,294,806**	**2,362,520**	**2,432,255**	**2,504,073**	**2,578,035**	**2,654,207**	**2,732,654**	**2,813,444**
Expenses from Continuing Operations												
Employee Benefits & On-Costs	767,000	251,677	260,486	269,603	279,039	288,805	298,913	309,375	320,203	331,410	343,010	355,015
Borrowing Costs	196,000	200,145	249,440	237,425	225,409	213,394	201,378	189,363	177,347	165,332	153,316	141,300
Materials & Contracts	259,000	333,147	369,808	382,751	396,147	410,012	424,363	439,216	454,588	470,499	486,966	504,010
Depreciation & Amortisation	421,000	408,415	422,416	436,837	451,690	466,543	481,645	497,620	514,086	531,047	548,517	566,511
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	202,000	578,570	592,452	606,693	621,302	636,290	651,667	667,445	683,635	700,247	717,295	734,790
Interest & Investment Losses	-	-	-	-	-	-	-	-	-	-	-	-
Net Losses from the Disposal of Assets	-	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**1,845,000**	**1,771,954**	**1,894,601**	**1,933,308**	**1,973,588**	**2,015,044**	**2,057,967**	**2,103,018**	**2,149,859**	**2,198,535**	**2,249,103**	**2,301,626**
Operating Result from Continuing Operations	**53,000**	**1,495,922**	**193,814**	**255,818**	**321,218**	**347,476**	**374,288**	**401,055**	**428,176**	**455,672**	**483,550**	**511,818**
Discontinued Operations - Profit/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit/(Loss) from Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Result for the Year	**53,000**	**1,495,922**	**193,814**	**255,818**	**321,218**	**347,476**	**374,288**	**401,055**	**428,176**	**455,672**	**483,550**	**511,818**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**48,000**	**255,429**	**178,814**	**240,368**	**305,305**	**331,085**	**357,406**	**383,666**	**410,265**	**437,224**	**464,549**	**492,246**

Glen Innes Severn Council												
10 Year Financial Plan for the Years ending 30 June 2025												
INCOME STATEMENT - SEWER FUND	Actuals	Current Year	Projected Years									
Scenario: Action Plan Implementation	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	$	$	$	$	$	$	$	$	$	$	$	$
Income from Continuing Operations												
Revenue:												
Rates & Annual Charges	1,188,000	1,229,941	1,291,438	1,356,010	1,423,811	1,466,525	1,510,521	1,555,836	1,602,512	1,650,587	1,700,104	1,751,108
User Charges & Fees	83,000	67,732	69,764	71,857	74,012	76,233	78,520	80,875	83,302	85,801	88,375	91,026
Interest & Investment Revenue	120,000	108,410	108,410	108,410	108,410	108,410	108,410	108,410	108,410	108,410	108,410	108,410
Other Revenues	6,000	6,956	7,165	7,380	7,601	7,829	8,064	8,306	8,555	8,812	9,076	9,349
Grants & Contributions provided for Operating Purposes	36,000	39,815	41,010	42,240	43,507	44,813	46,157	47,542	48,968	50,437	51,950	53,509
Grants & Contributions provided for Capital Purposes	26,000	310,204	40,901	42,128	43,392	44,694	46,035	47,416	48,838	50,303	51,813	53,367
Other Income:												
Net gains from the disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Income from Continuing Operations	**1,459,000**	**1,763,058**	**1,558,688**	**1,628,026**	**1,700,734**	**1,748,504**	**1,797,707**	**1,848,386**	**1,900,585**	**1,954,350**	**2,009,728**	**2,066,768**
Expenses from Continuing Operations												
Employee Benefits & On-Costs	197,000	247,479	256,140	265,105	274,384	283,987	293,927	304,214	314,862	325,882	337,288	349,093
Borrowing Costs	135,000	128,911	198,306	186,766	175,225	163,684	152,143	140,603	129,062	117,521	105,981	94,440
Materials & Contracts	489,000	369,642	371,765	373,963	376,237	378,592	381,028	383,550	386,160	388,861	391,657	394,551
Depreciation & Amortisation	308,000	366,621	321,035	328,298	335,686	343,140	350,978	359,055	367,375	375,945	384,771	393,863
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	120,000	193,451	198,762	204,230	209,860	215,656	221,624	227,769	234,098	240,615	247,326	254,238
Interest & Investment Losses	-	-	-	-	-	-	-	-	-	-	-	-
Net Losses from the Disposal of Assets	-	-	-	-	-	-	-	-	-	-	-	-
Joint Ventures & Associated Entities	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses from Continuing Operations	**1,249,000**	**1,306,103**	**1,346,009**	**1,358,362**	**1,371,392**	**1,385,059**	**1,399,700**	**1,415,191**	**1,431,556**	**1,448,824**	**1,467,023**	**1,486,185**
Operating Result from Continuing Operations	**210,000**	**456,955**	**212,679**	**269,663**	**329,342**	**363,445**	**398,007**	**433,194**	**469,029**	**505,526**	**542,705**	**580,583**
Discontinued Operations - Profit/(Loss)	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit/(Loss) from Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Result for the Year	**210,000**	**456,955**	**212,679**	**269,663**	**329,342**	**363,445**	**398,007**	**433,194**	**469,029**	**505,526**	**542,705**	**580,583**
Net Operating Result before Grants and Contributions provided for Capital Purposes	**184,000**	**146,751**	**171,778**	**227,535**	**285,950**	**318,751**	**351,972**	**385,779**	**420,190**	**455,223**	**490,893**	**527,216**

Sustainability:

Sustainability							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Operating Performance Ratio **(Greater than or equal to breakeven average over 3 years)**	**1**	**GM/CFO**	**Adequate Reporting on this benchmark.**				
	1.1	**GM/CFO**		Including the Operating Performance Ratio as part of the budgeting process and Operational Plan Report			
	2.	**GM/CFO**	**Responsible Long Term Financial Planning in LTFP – incorporating year on year reduction in expenditure.**				
	2.1	**GM/CFO**		Ensure that the LTFP including all identified savings and revenue increases identifies an operating profit before and after capital items.			
	3	**GM/CFO**	**A permanent special rate variation (section 508A) to bring rates up to the Regional average.**				
	3.1	**GM/CFO**	**Actioned** Special Rate Variation of 11.21%. Annual increase in general income $559,537.	**Approved** Special Rate Variation of 10.02%. Annual increase in general income $555,878.	**Approved** Special Rate Variation of 5.59%. Annual increase in general income $341,189.		

	4	**GM/DIS/ CFO**	**Improving performance of Water and Sewer funds in line with Best Practise Guidelines to ensure that an appropriate return is achieved to the General fund.**				
	4.1	**GM/CFO**		**Actioned** Introduction of Water ($98,000) and Sewer ($92,000) dividends through increase in Water and Sewer charges by approximately 5% per annum. In accordance with Best Practise Guidelines.			
	4.2	**GM/CFO**	**Part Actioned** Introduction of debt guarantee fee from Water and Sewer Funds of 3% on Council interest (approximately $130,000 p.a.).				
	5	**GM/DIS/ CFO**	**Improving performance of Glen Innes Aggregates to provide significant return to the General Fund.**				
	5.1	**GM/DIS/ CFO**	**Actioned** Implementation of Campaign Crushing model for current fixed plant.	Implementation of Campaign Crushing model for current fixed plant.			

	5.2	**GM/DIS/ CFO**	Payment of all profits from Glen Innes Aggregates (expected to be $350,000) to General Fund for funding road works.				
	6	**GM/CFO**	**Ensuring Cost Recovery on all Fees and Charges**				
	6.1	**GM/CFO**	**Actioned** Increase in fees and charges above CPI (where allowable).	**Actioned** External review of fees and charges to ensure cost recovery is implemented where reasonably affordable – 5% increase overall.	Increase in fees and charges above CPI (where allowable).	Increase in fees and charges above CPI (where allowable).	Increase in fees and charges above CPI (where allowable).
	7.	**GM/Mayor**	**Pursue Boundary adjustments to incorporate clear communities of interest into LGA**				
	7.1	**GM/Mayor**	Pursue discussions with Tenterfield regarding possible acquisition of remainder of Deepwater Locality.				
	7.2	**GM/Mayor**	Pursue discussions with Inverell Shire Council regarding possible				

			acquisition of Kingsland, Kings Plains and Swanvale.				
	7.3	**GM/Mayor**	Pursue discussions with Guyra Shire Council regarding possible acquisition of Ben Lomond, Llanglothlin and surrounds.	If Guyra Shire Council is amalgamated with Armidale Dumaresq Council will further pursue negotiations with the newly formed Council.			
Own Source Revenue Ratio **(Greater than 60% average over 3 years)**	**8.**	**GM/CFO**	**Increasing Own Source Revenue responsibly through the increase of fees and charges and annual rates.**				
	8.1	**GM/CFO**	As per 6.1 above increase fee and, charges through external review with a minimum increase of 5%.	As per 6.1 above increase fees and charges above CPI.			
	8.2	**GM/CFO**	As per 3.1 above introduction of Special Rate Variation of 11.21%.	As per 3.1 above introduction of Special Rate Variation of 10.02%.	As per 3.1 above introduction of Special Rate Variation of 5.59%.		

	8.3	**GM/DIS/ CFO**	Maximising sales of quarry products of Glen Innes Aggregates by reducing the cost of goods sold (and sale price) through campaign crushing business model.	Identifying competitive advantages combined improved marketing and consumer relationship building.			
	9.	**GM/CFO**	**Adequate Reporting on this benchmark.**				
	9.1	**GM/CFO**		Including the Operating Performance Ratio as part of the budgeting process and Operational Plan Report			
Building and Infrastructure Asset Renewal Ratio **(Greater than 100% average over 3 years)**	**10.**	**GM/DIS/ MTS/ CFO**	**Rationalise Council's asset base by disposing of assets that are not required. Particularly when considering the cost of depreciation and required maintenance.**				
	10.1	**GM/DIS/ MTS/ CFO**	**Actioned:** Review and sale of Buildings that serve no operational purpose which negatively impact on Council's renewal ratios.(E.g Sale of Garden Court, Tindale, Highwoods etc)	Formal review of other buildings and assets which are not required operationally for disposal.	Formal review of co-location options to be incorporated at that stage into the LTFP, CSP and DP.	Formal review of other buildings and assets which are not required operationally for disposal.	Formal review of other buildings and assets which are not required operationally for disposal.

	10.2	**GM/DIS/ MTS/ CFO**	Review of Depreciation Methodology on roads infrastructure assets as part of revaluations for year end.	Review of Depreciation methodology of building and other infrastructure assets as part of year end.			
	10.3	**GM/DIS/ MTS/ CFO**	Review of Buildings and assets and identification of assets which will not be renewed.				
	11	**GM/DIS/ MTS/ CFO**	**Creating a funded infrastructure reserve to ensure that any shortfall in year on year spend is cash backed.**				
	11.1	**GM/DIS/ MTS/ CFO**	Preparation and adoption of formal asset renewal policy identifying assets for sale, assets that will not be renewed, minimum renewal per asset class inter alia.	Establishment of infrastructure reserve to restrict funds sufficient to meet any shortfall between total depreciation and actual renewal spend – infrastructure assets only.			Establishment of infrastructure reserve to restrict funds sufficient to meet any shortfall between total depreciation and actual renewal spend – remaining assets.
	11.2	**GM/DIS/ MTS/ CFO**	Introduction of set maximum percentage of new assets compared with renewals of 5% (unless specifically grant funded or resulting in savings equivalent to or	Introduction of set maximum percentage of new assets compared with renewals of 4% (unless specifically grant funded or resulting in savings equivalent to or	Introduction of set maximum percentage of new assets compared with renewals of 3% (unless specifically grant funded or resulting in savings equivalent to or	Introduction of set maximum percentage of new assets compared with renewals of 2% (unless specifically grant funded or resulting in	Introduction of set maximum percentage of new assets compared with renewals of 2% (unless specifically grant funded or resulting in

			greater than the cost).	greater than the cost).	greater than the cost).	savings equivalent to or greater than the cost).	savings equivalent to or greater than the cost).
	12	**GM/DIS/ MTS/ CFO**	**Increasing expenditure on Buildings and Infrastructure in line with the identified renewals in the AMPs.**				
	12.1	**DIS/MTS**		Full review of AMP for Road Infrastructure – development of advanced asset management plans (in line with Infrastructure Audit Recommendations)	Full review of AMP for Building Infrastructure – development of advanced asset management plans (in line with Infrastructure Audit Recommendations)	Full review of remaining AMP's and improvement to an advanced level.	
	12.2	**GM/CFO**	**Actioned** In line with item 3.1 above increase total renewal works on Road Infrastructure by total SRV revenue increase of $557,000 (excluding Loan repayment on LIRS)				
	12.3	**GM/CFO**		Spend all savings identified under the "Efficiency" heading on road infrastructure including bridges (including maintenance).			

	12.4	**GM/CFO**		Spend all revenue increases under the "Operating Performance Ratio" heading on road infrastructure including bridges (including maintenance). With particular emphasis on Water and Sewer Dividends of $170,000 plus Debt Service Charges of $130,000.			
	12.5	**GM/DIS/ MTS/ CFO**	Source and efficiently expend approved LIRS Funding of $5 million to increase renewals on bridges and road assets.	Source and efficiently expend approved LIRS Funding of $5 million to increase renewals on bridges and road assets.			

Infrastructure and Service Management

Infrastructure and service management							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Infrastructure Backlog Ratio (Less than 2%)	1.0	GM/DIS/ MTS/ CFO	**Identify exactly what our backlog is and ensure that we are spending money on the right assets.**				
	1.1	MTS/CFO	Rationalise asset base with particular focus on reducing the number of assets (those which are not required by disposal). As identified under Efficiency heading item 2 below.				
	1.2	MTS/CFO	Review current Buildings and identify assets which are no longer required for operational purposes and do not require renewal.				
	1.3	DIS/MTS		Advance Road Infrastructure AMPs to advanced level in line with Infrastructure Audit Recommendations.	Advance Building Infrastructure AMPs to advanced level in line with Infrastructure Audit Recommendations.	Advance remaining Infrastructure AMPs to advanced level in line with Infrastructure	

						Audit Recommendations.	
	1.4	**DIS/ MTS/CFO**	Review Special Schedule 7 to ensure that it accurately reflects required asset maintenance based on IPWEA RABM benchmarking.	Review Special Schedule 7 (road infrastructure) to ensure that it accurately reflects required asset maintenance based on reviewed advance AMP.	Review Special Schedule 7 (Buildings) to ensure that it accurately reflects required asset maintenance based on reviewed advance AMP.	Review Special Schedule 7 (Other Assets) to ensure that it accurately reflects required asset maintenance based on reviewed advance AMP.	
	2.	**MANEX/ CFO**	**Increase expenditure on assets over and above the required renewals for that financial year based on the AMPs.**				
	2.1	**GM/CFO**		Budget for ongoing capital expenditure over and above the required amount to start addressing the backlog.			
	2.2	**GM/CFO**	**Partly Actioned** Employ LIRS Funding of $5million to address the **entire** bridge infrastructure backlog and $1million in Road backlog.	**Finalise** Employ LIRS Funding of $5million to address the **entire** bridge infrastructure backlog and $1million in Road backlog..			

Asset Maintenance Ratio **(Greater than 100% average over 3 years)**	**3**	**MANEX/ CFO**	**Confirm exactly what we need to spend and ensure we are spending it on the correct assets.**				
	3.1	**MTS/ CFO**	Review Special Schedule 7 to ensure that it accurately reflects required asset maintenance based on IPWEA RABM benchmarking.	Review Special Schedule 7 (road infrastructure) to ensure that it accurately reflects required asset maintenance based on reviewed advance AMP.	Review Special Schedule 7 (Buildings) to ensure that it accurately reflects required asset maintenance based on reviewed advance AMP.	Review Special Schedule 7 (Other Assets) to ensure that it accurately reflects required asset maintenance based on reviewed advance AMP.	
	4.	**MANEX/ CFO**	**Increase expenditure on assets over and above the required renewals for that financial year based on the AMPs.**				
	4.1	**GM/CFO**	**Actioned** Increase expenditure budget on roads and bridges by 10%	Increase expenditure budget on roads and bridges by 10%	Budget for ongoing operational maintenance of the amounts identified in Special Schedule 7.		
	4.2	**GM/CFO**		Focus on reverting to a pro-active maintenance schedule on Bridges as full backlog is addressed by LIRS.			

	4.3	**DIS/MID/ MTS**		Implement a standalone permanent bridge crew to ensure that knowledge and skills on bridge works are maintained.			
	4.4	**DIS/MTS**	Centralisation of all building maintenance to ensure that works can be pro-actively planned, rather than ad hoc by individual managers.				
Debt Service Ratio **(Greater than 0% and less than or equal to 20% average over 3 years)**	**5**	**GM/CFO**	Fund infrastructure using loan funding where the cost of deterioration and additional maintenance (including additional risk) exceeds the cost of finance.				
	5.1	**GM/CFO**	**Actioned** Responsibly source $6.5million in funding for capital works at record low interest rate; $5million of which is subsidised by LIRS funding.				

	5.2	**GM/CFO**		Include the Debt Service Ratio in any reports associated with loan funding and additional loan funding.			
	5.3	**GM/CFO**	Ensure that loan funding is considered as an appropriate methodology for capital works by considering it each year as a part of the operational budget.				

Efficiency:

Efficiency							
Measure / benchmark	**NO.**	**RES OFF**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Real Operating Expenditure Per Capita **(A decrease in Real Operating Expenditure per capita over time)**	**1.**	**CFO**	**Adequate Reporting on this benchmark.**				
	1.1	**CFO**		Including the Real Operating Expenditure per Capita ratio as part of the budgeting process and Operational Plan Report			
	1.3	**CFO**	Continuing to report on internal savings as part of the internal Saving Initiative Report	Identifying more efficient work procedures and productivity improvements.			
	2.	**CFO**	**Finalise the actioning of those items identified as savings as part of the SRV**				
	2.1	**HRO**	**Actioned** Leave/Overtime Claim Forms ($65,000 p.a.)				
	2.2	**HRO**	**Actioned** Higher Grade Position Justification ($24,000 p.a.)				

	2.3	**CFO**	**Actioned** Sale of Tindale Units ($17,951 p.a.)				
	2.4	**CFO**	**Actioned** Sale of Wullamulla Street Lots ($1,600 p.a.)				
	2.5	**HRO**	**Actioned** Non-replacement of staff on leave /casual staff approval form ($51,625 p.a.)				
	2.6	**CFO**	**Actioned** Gum Tree Glen (Long Day Care Component) Closure ($230,000 p.a.)				
	2.7	**CFO**	**Actioned** Closure of Council Freezer Rooms ($21,297 p.a.)				
	2.8	**MHR**	**Actioned** Telephone Contract Renewal ($30,000 p.a.)				
	2.9	**MHR**	**Actioned** Printer Contract Renewal ($60,000 p.a.)				

	2.10	**MLLC**	**Actioned** Library Solar Panel Introduction ($20,000 p.a.)				
	2.11	**DIS**	**Actioned** Water and Sewer electricity savings – peak charge and solar panels ($53,000 p.a.)				
	2.12	**DIS/CFO**	**Actioned** Solar Panels - Church Street and Life Choices ($16,000 p.a.)				
	2.13	**CFO**		Sale of Garden Court Centre (saving $26,454 p.a.)			
	2.14	**CFO/MTS**			Sale of Abbot Street Lots (13 lots – saving of $24,905 p.a.)		
	2.15	**CFO/MTS**			Sale of Potters Parade lots (saving $11,000 p.a.)		
	2.16	**GM**			AAFT Flight Academy Development Savings ($201,327 p.a.) Council considering the		

					option of selling the Airport.		
	2.17	**DCCS/MCS**		Community Services Savings – natural attrition due to co-location ($250,000 p.a.)			
	2.18	**DIS**	**Actioned** Works Technical Officer non replacement ($60,000 p.a.)				
	2.19	**CFO/MTS**	**Part - Actioned** Cutting 10 vehicles from operational fleet ($50,000 p.a.)	**Finalise** Cutting 10 vehicles from operational fleet ($50,000 p.a.)			
	2.20	**MTS**		Implementation of LED street lighting ($50,000 p.a.)			
	2.21	**CFO**		Sale of Carl Baer Circuit Lots ($2,000 p.a.)			
	3.	**MANEX/CFO**	**Responsible Long Term Financial Planning in LTFP – incorporating year on year reduction in expenditure.**				
	3.1	**MANEX/CFO**		Maintaining operational expenditure increases to 2% overall.			

	4.	**MANEX/CFO**	**Responsible and more efficient purchasing techniques through LGP/Procurement Australia/ State Contracts**				
	4.1	**CFO**	**Actioned** Implement internal control measures to ensure that all purchases follow correct procedures.				
	4.2	**CFO**	**Actioned** Implement readily accessible "how to purchase" system to provide guidance to staff.				
	4.3	**CFO**	**Actioned** Introduce internal purchasing training to all staff by use of Purchasing and Procurement Officer				
	4.4	**CFO**	**Actioned** Centralise tendering processes through Tender link				
	4.5	**CFO**		Introduce "Vendor Panel" to get best value for money from LGP/ Internal contracts			
	4.6	**CFO**		Introduce internal requirement to use vendor panel for any contract purchase over $10,000.			

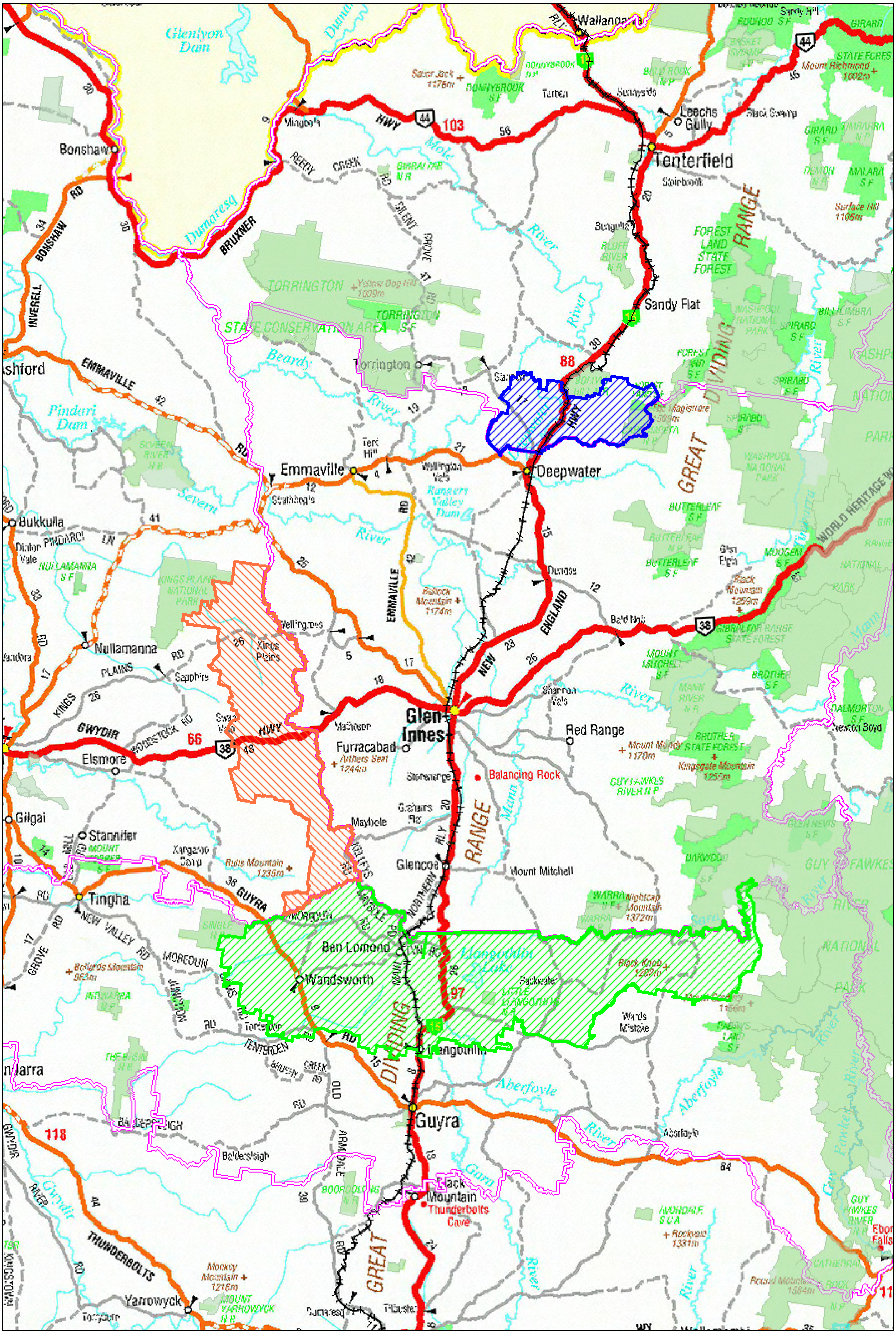
	4.7	**CFO**		Improve efficiency of stores and introduce more items into stores to reduce freight costs due to Council isolation.			
	4.8	**CFO**		Improve reporting on category of spend to ensure that all categories of spend are tendered out.			
	4.9	**CFO**	**Actioned** Continue to report on current procurement KPI's to procurement committee.				
	5.	**CFO**	**Introduction of external and internal reviews of efficiency.**				
	5.1	**DIS/MTS/ CFO**	**Actioned** Introduction of Light Vehicle Plant Booking system.	Introduction of Heavy Plant Booking System.	Full Internal Review of Plant and Fleet.	External Review of Plant and Fleet.	
	5.2	**DIS/CFO**	**Actioned** Review of Glen Innes Aggregates – external review campaign crush business implementation.	Internal Review of Business Unit after one full year of campaign crushing model.			
	5.3	**CFO/PC**	**Part-Actioned** Review of purchasing and payment	**Finalise** Review of purchasing and payment			

			procedures	procedures.			
	5.4	**GM/MRC**			Finalisation and Implementation of External Audit Committee.		
	5.5	**GM/DCCS**	**Actioned** Employ qualified CFO to improve quality of financial information and reporting.				
	5.6	**CFO**	**Actioned** Employ Management Accountant to improve reporting on both capital and operational programmes.				
	5.7	**MTS/CFO**		Review of current Gravel Quarries (type/location/accessibility/ cost) and opening more pits if efficiency of road works can be improved.	Implement formal license agreements with all gravel pit landholders.		
	5.8	**MANEX/ CFO**		Review of Financial Account programme to ensure that it meets current requirements in respect of organisational reporting and asset management.			

	5.9	**DDRSS/MTE/CFO**		Reduce expenditure in Tourism and Events from $750,000 net position to $600,000, through a strategic review of what provides value for money.	Reduce expenditure in Tourism and Events from $600,000 net position to $550,000, through a strategic review of what provides value for money.	Reduce expenditure in Tourism and Events from $550,000 net position to $500,000, through a strategic review of what provides value for money.	

Fit for the Future Proposal

Annexure 1: Boundary Adjustment Map



Glenlyon Dam
Wallangarra
Tenterfield
Leechs Gully
Bonshaw
Sandy Flat
Torrington
TORRINGTON STATE CONSERVATION AREA
Ashford
Pindari Dam
Emmaville
Deepwater
Bukkulla
Nullamanna
Glen Innes
Furracabad
Red Range
Balancing Rock
Elsmore
Gilgai
Stannifer
Tingha
Glencoe
Mount Mitchell
Ben Lomond
Wandsworth
Guyra
Black Mountain
Thunderbolts Cave
Yarrowyck
GREAT DIVIDING RANGE
NEW ENGLAND HWY
GWYDIR HWY
EMMAVILLE RD
BRUXNER HWY
THUNDERBOLTS
WORLD HERITAGE
Beardy River
Severn River
Mole River
Dumaresq
Aberfoyle River
Gara River
Rangers Valley Dam
Malpas Dam
Kings Plains
Sapphire
Mayhole
Deepwater

Fit for the Future Proposal

Annexure 2: Council Financial Improvement

GLEN INNES SEVERN COUNCIL:
SOUND FINANCIAL MANAGEMENT AND MARKED IMPROVEMENT SINCE AMALGAMATION IN 2004

This report illustrates the improvement in the Glen Innes Severn Council's (GISC's) financial position after amalgamation of the former Glen Innes Municipal Council (GIMC) and Severn Shire Council (SSC) in September 2004, and why a Special Rate Variation (SRV) was the appropriate next step for the now amalgamated Council to take.

The information provided in this report indicates the improvement in Council's financial position (across almost all financial indicators) since amalgamation, and the general improvement in Council's asset management position across available asset management indicators, including asset expenditure – particularly roads, bridges and footpaths. This information potentially stands Council in stark contrast to a number of other amalgamated Councils, which have arguably not benefited financially after their amalgamations.

<u>List of Abbreviations:</u>

AMP – Asset Management Plan
B&IRR – Building and Infrastructure Renewal Ratio
CES – Community Engagement Strategy
CPI – Consumer Price Index
CSP – Community Strategic Plan
DP – Delivery Program
FAG – Financial Assistance Grant
GC – Grants Commission
GIMC – Glen Innes Municipal Council
GISC – Glen Innes Severn Council
ILGRP – Independent Local Government Review Panel
IP&RF – Integrated Planning and Reporting Framework
KPI – Key Performance Indicator
LIRS – Local Infrastructure Renewal Scheme
LTFP – Long Term Financial Plan
NDF – Natural Disaster Funding
NSW – New South Wales
OLG – Office of Local Government
OP – Operational Plan
R2R – Roads to Recovery
SRV – Special Rate Variation
SSC – Severn Shire Council
TCORP – Treasury Corporation of NSW
WP – Workforce Plan

EXECUTIVE SUMMARY

The former GIMC and SSC were amalgamated in 2004 to improve financial sustainability by amalgamating a ‘donut’ council with a ‘town’ council. The purpose of this report is to review the financial indicators of all three (3) Councils (GIMC, SSC and GISC) since 1999 to identify whether GISC has:

a. Benefited from this amalgamation, and
b. Whether it has been effectively managed post amalgamation.

It should be noted that only financial indicators have been considered in this report. No non-monetary achievements have been addressed.

The report then considers how the SRV process commenced and why it was only undertaken in this current financial year.

The financial indicators and Key Performance Indicators (KPIs) have improved considerably from pre-amalgamation in 1999 to 2013. These indicators, along with the independent review by the Treasury Corporation of NSW (TCORP) in March 2013, confirm that GISC has been managed effectively.

An analysis of audited financial statements indicates improvement in GISC’s financial position across almost all key indicators, when compared to the former Councils:

- **Operating Position:** The combined GIMC and SSC figures indicate an average combined loss of ($1,757,000) over the years 1999 to 2004. It can be compared with an average loss for GISC of ($973,000); which represents an improvement of $784,000 per annum.
- **Operating Position of Council as a proportion of Total Revenues:** The average combined operating position of the former Councils (SSC and GIMC) was -12.80%, with the new GISC having an average ratio of -4.72%; which should be viewed as being a significant improvement.
- **Unrestricted Current Ratio:** GIMC and SSC had an unrestricted current ratio of 2 or less in the years leading up to amalgamation. GISC’s unrestricted current ratio is now above 4.5; which should be viewed as another significant improvement.
- **Debt Service Ratio:** GIMC’s Debt Service Ratio peaked at 100% in 2003. In contrast, GISC has a Debt Service Ratio of 7.8%, which compares very favourably with the TCorp average.
- **Affordability of Borrowings:** GISC has taken the middle ground in respect of borrowing and borrowing costs, with borrowing costs as a proportion of total revenue remaining reasonable static at less than 4%. This can be compared with the lower borrowing cost percentage of the SSC (combined with lower asset expenditure) and a higher borrowing cost percentage of GIMC, peaking at over 12% in 2003 (combined once again with lower asset expenditure). The increase in total liabilities as a proportion of revenue has been reasonably static, and is comparable with both the GIMC and SSC.

- **Rates Coverage Ratio:** The Rates Coverage Ratio is similar for all three (3) Councils.
- **Rates and Charges Outstanding Ratio:** GISC's Rates and Charges Outstanding Ratio is now below 4%, compared with SSC's ratio of above 16% in 2001 and GIMC's ratio of around 11% in 1999; an outstanding improvement.
- **Capital Expenditure as a Proportion of Total Revenue:** The average Capital Expenditure as a Proportion of Total Revenue for GISC is 22.26%, an improvement of 4.11% compared to the combined GIMC and SSC figures of 18.15%. This equates to an annual increase of $986,400 in capital expenditure, leading to improved community assets.
- **Capital Expenditure on Roads, Bridges and Footpaths as a Proportion of Total Revenue:** GISC has achieved 6.87% on this indicator, an improvement of **2.15%** compared to the combined GIMC and SSC average of 4.72% for the years from 2001 to 2005. This equates to an annual increase of $516,000 on roads, bridges and footpaths**,** which has helped to decrease the infrastructure backlog associated with these assets.

The above-mentioned information indicates that GISC has performed well after its amalgamation.

The journey which has lead to applying for a SRV is complex and requires a good understanding of how Local Government in NSW works, and how the Integrated Planning and Reporting Framework (IP&RF) has been implemented. Further matters that need to be understood are how Council receives grants and how the Grant Commission operates. There are many events and important dates that occurred on this journey, and they are noted in detail in the body of the report.

The main dates/events to note are:

- The Building and Infrastructure Renewal Ratio (B&IRR)was introduced as a KPI as part of the Audited Financial Statements for 30 June 2008;
- 23 June 2011 – Council adopted the original Long Term Financial Plan (LTFP) which included projected additional grant revenue (Roads to Recovery (R2R) 50% increase and Financial Assistance Grants (FAGs) – roads component $700,000 increase);
- 30 June 2011 – Revaluation of NSW Councils' assets to market value or replacement cost completed;
- 21 October 2013 – Meeting with the Grants Commission of NSW (who distribute the NSW portion of the FAGS). Council was advised that Grant increases were unlikely and that it was suggested that Councils consider alternative funding sources. The Grants Commission made specific suggestions for GISC to further pursue the Local Infrastructure Renewal Scheme (LIRS) and apply for an SRV.

Based on the timeline and the overwhelming perception amongst rural councils, at the time, that increases in the FAG roads component and the R2R grant were not out of the question (which was confirmed to be reasonable by TCORP in March

2013) and then the advice from the Grants Commission that local councils were not going to receive an increase, it is clear that this was the first significant trigger for Council to pursue an SRV (to make up the anticipated grant funding) in October 2013.

It can therefore be reasonably concluded that GISC has been managed well since the amalgamation of the former GIMC and SSC in 2004. Further, Council has acted responsibly and appropriately in not pursuing an SRV earlier than in the 2013/14-Financial Year.

BACKGROUND

The former GIMC and former SSC were amalgamated in 2004, with the aim of improving financial sustainability by amalgamating a 'donut' council with a 'town' council. It could be stated that the amalgamation process of local councils is a difficult one. In particular instances, problems were perceived to be significant enough for de-amalgamations to occur, i.e. recently in Queensland (Noosa, Douglas, Livingstone and Mareeba).

It anecdotally appears that the management of the local government entities before and after amalgamation has greatly influenced whether or not the amalgamations were successful, or not. There are also other significant factors which should be taken into consideration, such as communities of interest and the tyranny of distance.

The purpose of this report is to review the financial indicators of all three (3) Councils (GIMC, SSC and GISC) from 1999 to 2013 to identify whether GISC has:

a. Benefited from this amalgamation, and
b. Whether it has been effectively managed post amalgamation.

It should be noted that only financial indicators have been considered in this report. No non-monetary achievements have been addressed. Please refer to Annexure A of this report for more detailed information.

The report also considers how the SRV process commenced and why the application process was only undertaken in the 2013/14 Financial Year.

Council approved an SRV at an Extraordinary Council Meeting on 20 February 2014 and the necessary SRV application was lodged with IPART on 24 February 2014. It is expected that Council will be advised of the success of this application in early June 2014.

In preparation for this application, a significant amount of financial modelling and asset planning was completed to identify that Council needed an increase in its rating revenue to fund those assets the Community wanted (as identified through community engagement in the development of the Community Strategic Plan and associated Delivery Program, and the Road and Open Spaces Hierarchy Management Plans), as well as properly renewing and maintaining Council's asset base.

This modelling identified that an SRV, combined with further operational savings, and a further $4 million LIRS loan would further improve Council's financial and asset management ratios. In fact, the reviewed (Transport) Asset Management Plan (AMP) identified that by 2033 GISC will have made a significant impact on the roads, bridges and footpaths infrastructure backlog (deferred renewals).

Currently, given the strong arguments in respect of financial sustainability raised by the above modelling, it seems reasonable to reflect on the road to the SRV from amalgamation in 2004. Particular emphasis has been placed on whether Council has effectively managed GISC finances since amalgamation, and alternatively whether an application of this nature should have been completed earlier.

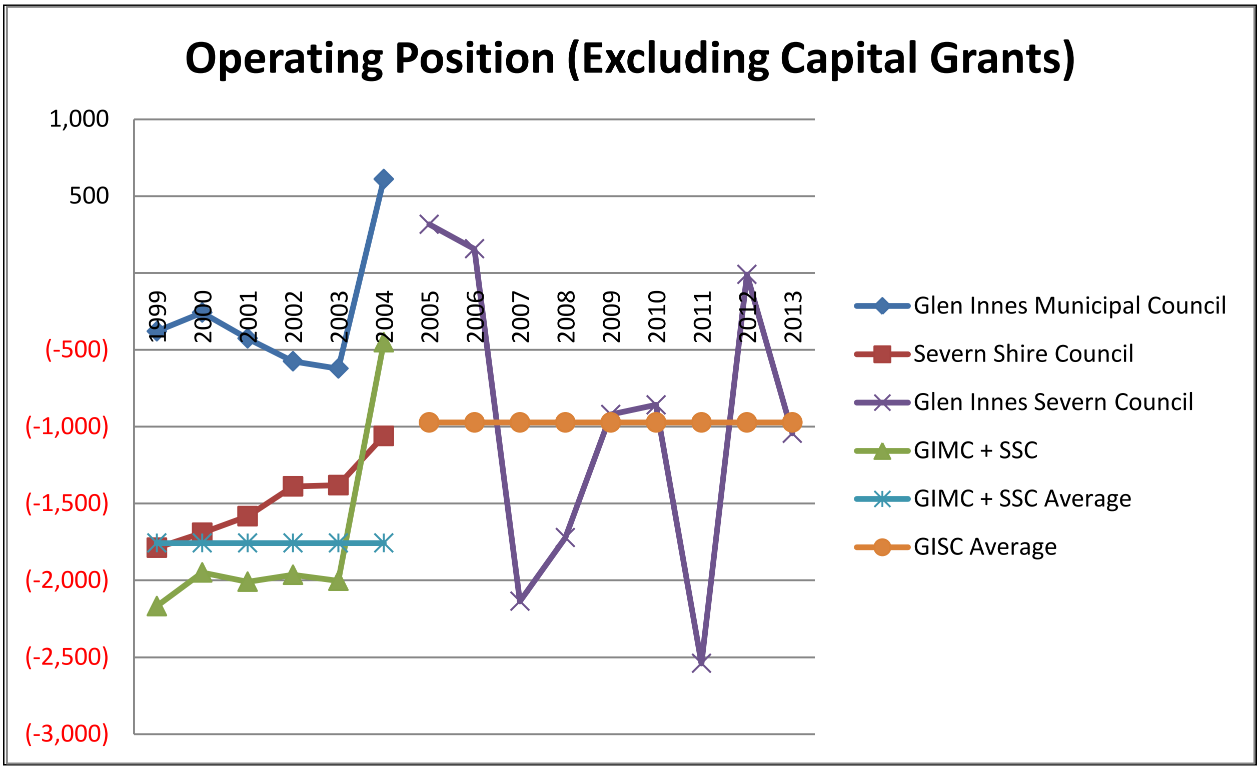
Has Council been effectively managed since Amalgamation?

A comparison has been prepared between financial indicators from before amalgamation, and after, based on the audited financial statements. Data from the former SSC and GIMC from six (6) years prior to amalgamation (1999 to 2004 inclusive) has been used, which should give a good indication of the financial position of those Councils for this period. Subsequent years (2005 to 2013) have been included for GISC to provide a comprehensive comparison of financial trends for the current (amalgamated) Council.

It is noted that there were minor discrepancies between some of the reported financial statements due to changes in Local Government Reporting requirements, although these do not hinder a good comparison being made.

It should also be noted that no 'time value' has been given to money in some of these comparisons. 'Time value' of money is the concept that the value of a dollar to be received in the future is less than the value of a dollar on hand today. Therefore, comparing a loss of $2.046 million for the combined GIMC and SSC in 1999, to a loss of $2.136 million for GISC in 2007 is not strictly correct, as the loss in 1999 has not been increased proportionally with the time value of money. For this reason, the majority of comparisons have been made as a proportion of operating expenditure or revenue, as this takes into account both the time value of money and the general increase in the organisation's size.

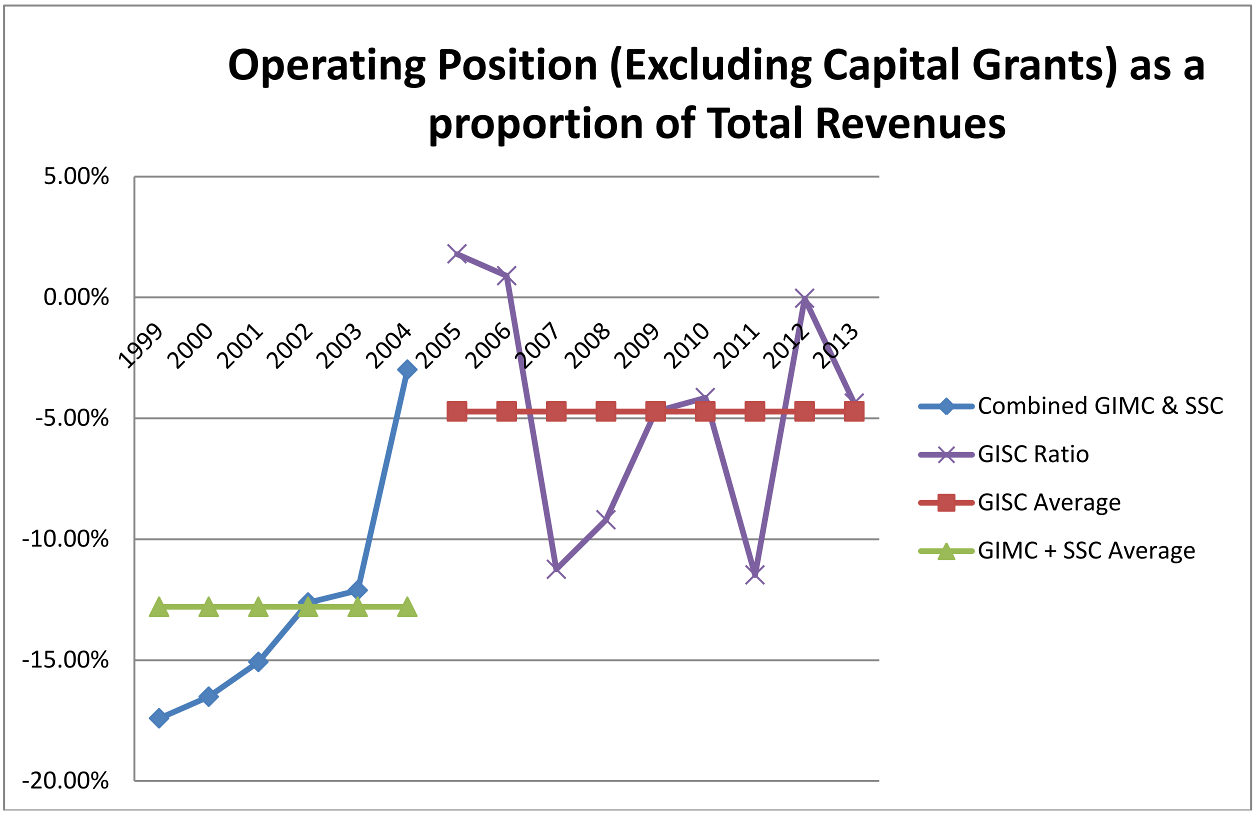
Graph 1.1 The Operating Position of Council:



The combined GIMC and SSC line indicates an average combined loss of ($1,757,000) over the years 1999 to 2004. It can be compared with an average loss for GISC of ($973,000). This is a very rough comparison of the operating performance of Council, particularly when one considers the time value of money and that only an average has been used. Therefore, the actual improvement in the GISC's position of ($1,757,000 - $973,000) $784,000 per annum is actually <u>understated</u> by the time value of money in the interim.

A more appropriate indicator of operating performance would be the operating position (profit or loss) as a proportion of total revenue. A comparison of this nature is discussed on the next page (Graph 1.2).

Graph 1.2 Operating Position of Council as a proportion of Total Revenues:

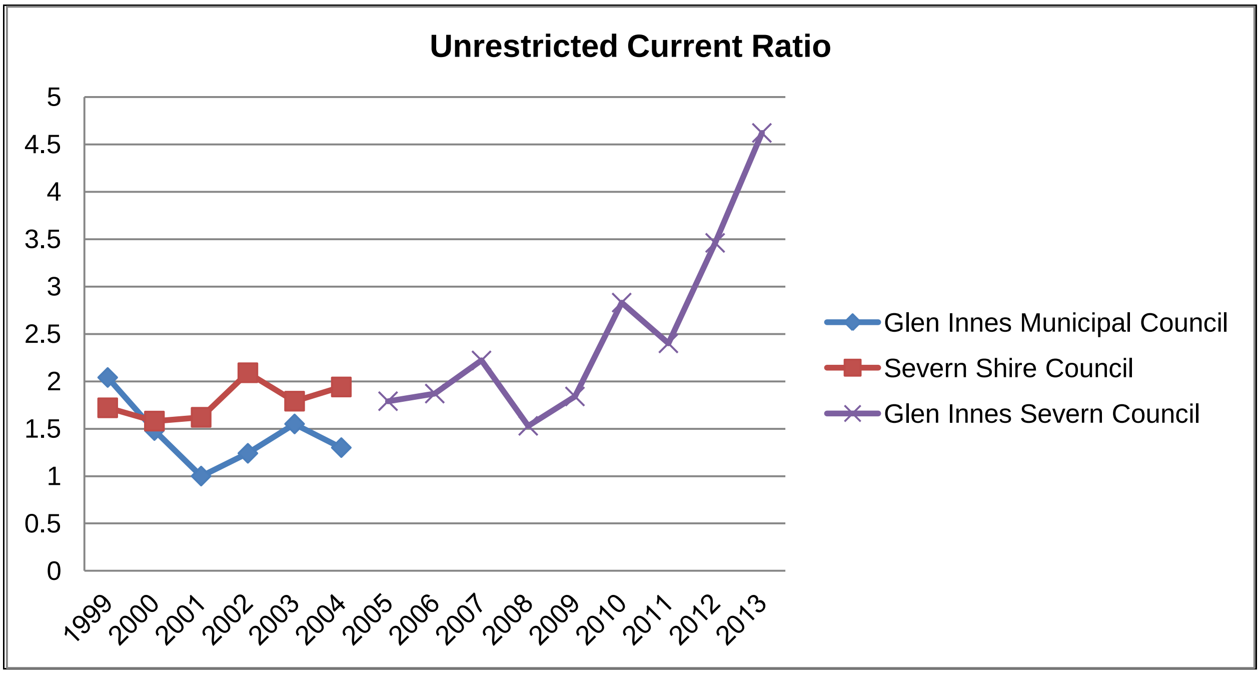


The average combined operating position of the former Councils (SSC and GIMC) was -12.80%, with the new GISC having an average ratio of -4.72%.

The GISC ratio is therefore a significant improvement on the pre-amalgamation Councils' combined results. It should be noted that the average operating ratio of -4.72% is marginally below the TCORP benchmark of > - 4.0%. Therefore, Council has made a significant improvement in this regard compared to before amalgamation and is very close on average to meeting the required benchmark of TCORP.

It should also be noted that these figures are derived from simply adding together the profit/loss and total revenues; a full consolidation has not been prepared as it is not believed to provide any significant variation to the above results.

Graph 1.3 Unrestricted Current Ratio:



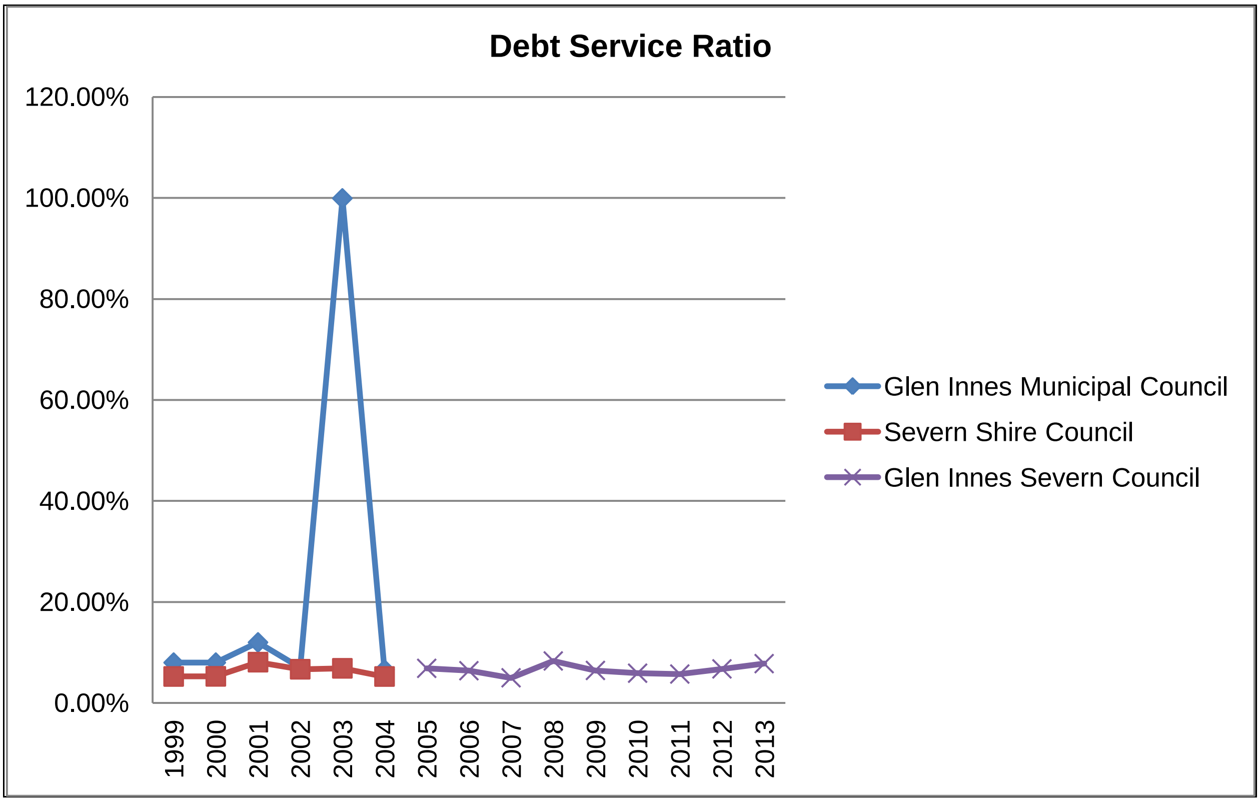
The TCORP benchmark for this ratio is above 1.5, while the industry has generally accepted two (2) as a good position. Council is, at the time of preparing this report, sitting at above 4.5. This indicates the organisation is in a strong position to meet its short to medium commitments and liabilities. As shown in Graph 1.3 (above), there is a clear and improving trend for GISC, compared with the relatively stationary positions for the GIMC and SSC.

The above suggests that the GISC has been able to make unrestricted cash surpluses over the period. This does not necessarily suggest Council has been spending less on infrastructure than it could have. Although Council could have spent marginally more on infrastructure, the current ratio of over 4.5 is comparable with the average for Council's Office of Local Government (OLG) group (Group 10), suggesting that Council has now improved to the average in this particular regard. Therefore, this increase was a responsible choice, balanced with an increase in capital expenditure (identified below Graph 5.1, 5.2 and 5.3).

Please also refer to the TCORP Benchmarking Report of 21 March 2013 Figure 18 – Unrestricted Current Ratio Comparison, attached to this report as Annexure B.

It is noteworthy that TCORP stated that Council's liquidity position is sound.

Graph 2.1 Council's Borrowings and Interest payments:



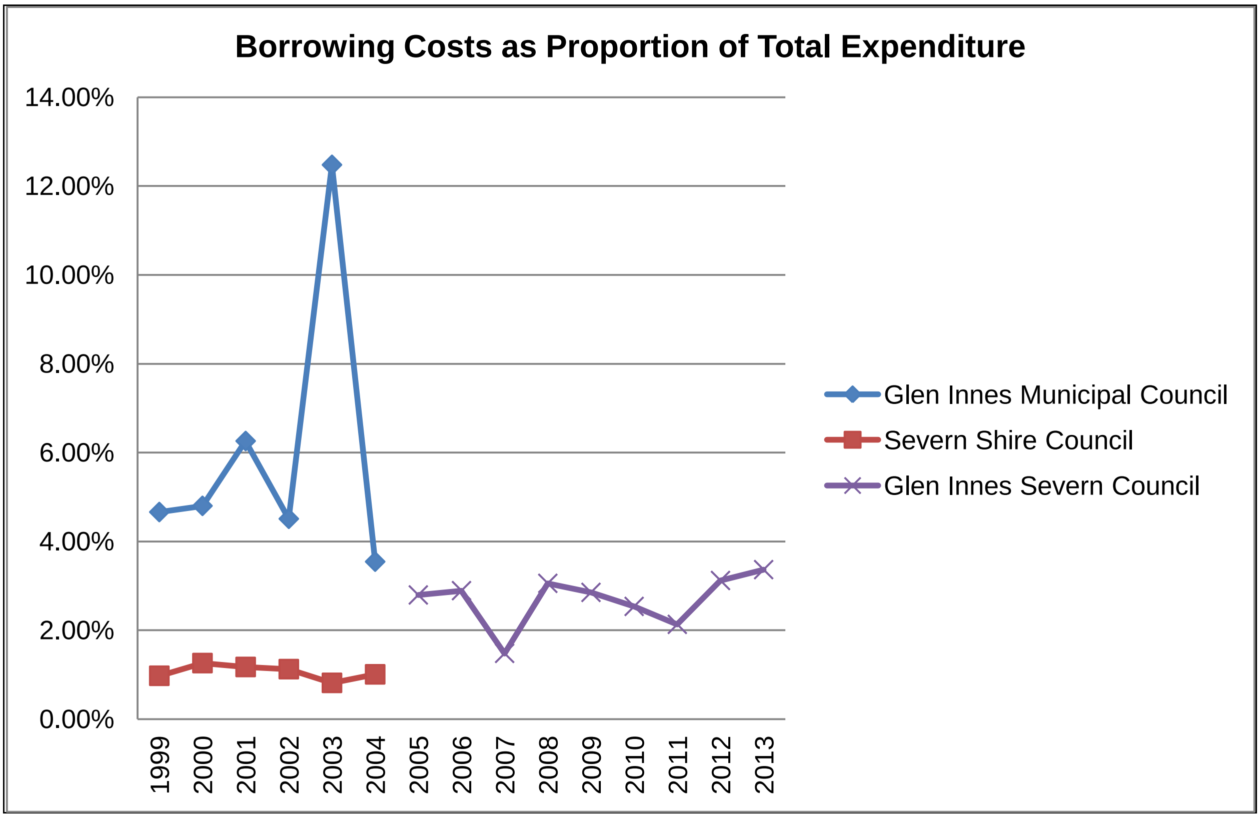
The graph above indicates that the cost of borrowing for GISC has not increased significantly based on the Debt Service Ratio. This Ratio, sitting at 7.8% for GISC in 2013, identifies that Council has borrowed responsibly and in line with the growth rate of Council's ability to pay for these borrowings.

When compared with the average for Group 10 (the group GISC is ranked amongst by the OLG), TCORP indicates that Council is well below the average for its Debt Service Ratio; therefore GISC is well placed in comparison (Refer to Figure 19 on page 28 of Annexure B). This ratio is, however, relative. Realistically, no borrowing ratio is 'good' unless the net result of those borrowings provides a valuable and affordable asset needed by the community. The table below summarises Council's borrowings since amalgamation:

Purpose of Loan	Interest Rate	Amount $
Library/ Learning Centre Loan	7.35%	530,000
Subsidised Sewerage Treatment Works	6.51%	2,715,000
Land Acquisition – Water Storage	7.69%	2,800,000
LIRS Loan – Accelerated Road Works Program	1.32% (5.32%) 4% subsidy	1,000,000
LIRS Loan – CBD Infrastructure Upgrade	1.46% (5.46%) 4% subsidy	1,800,000
Business Acquisition - Quarry	7.69%	1,050,000

Council has received a significant number of assets for the loan funding incurred. Based on the Graphs (2.1, 2.2 and 2.3) it is clear that these borrowings have been made affordably. The loan funding in respect of the 'Business Acquisition – Quarry' went hand in hand with the purchase of the future water storage site.

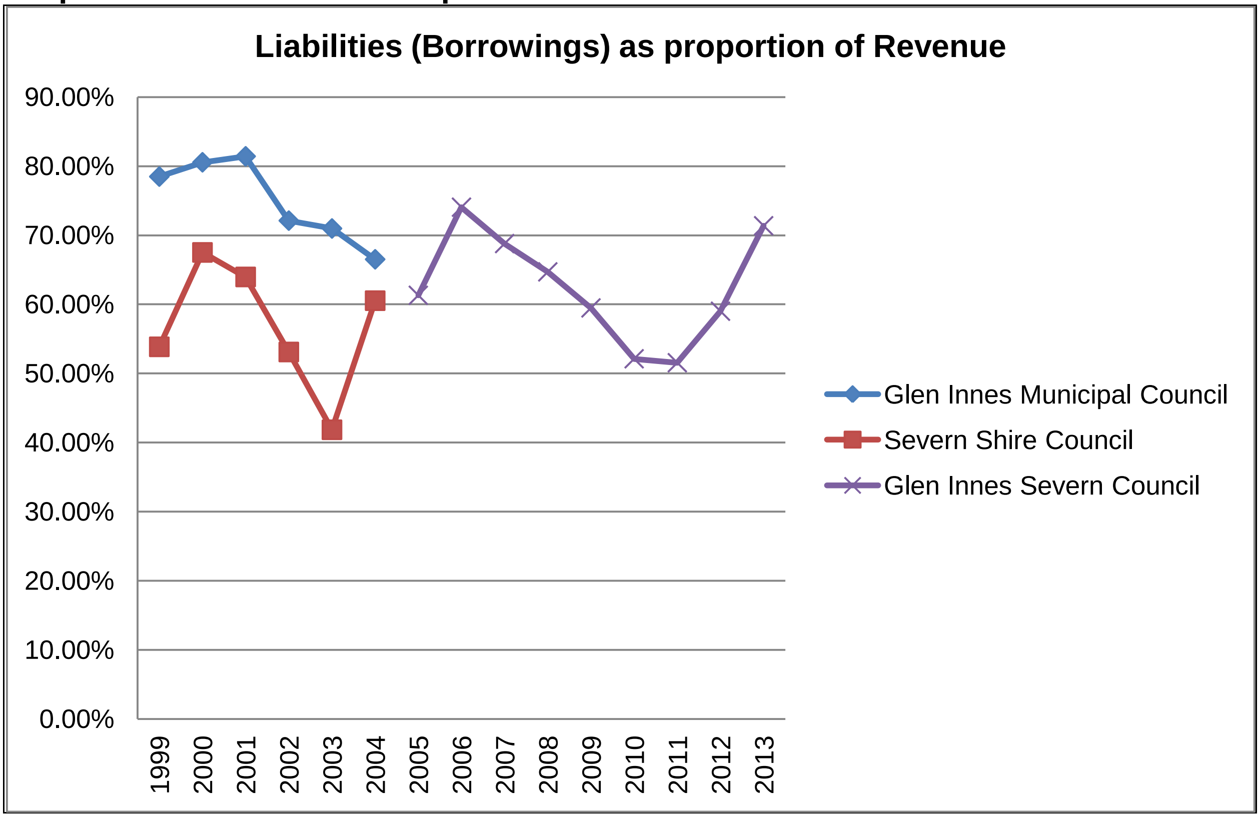
Graph 2.2 Affordability of Borrowings:



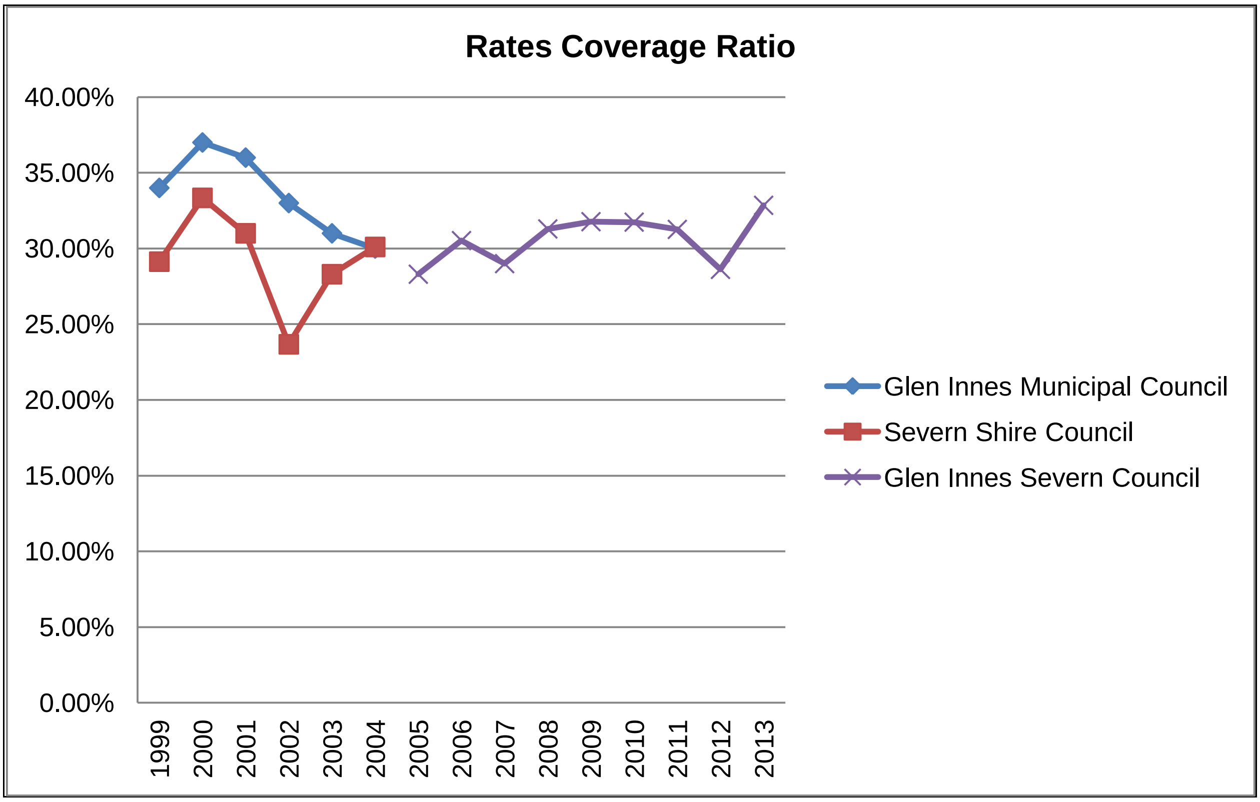
Based on the comparison in Graph 2.2 above, it is clear that GISC has taken the middle ground in respect of borrowing and borrowing costs, with borrowing costs as a proportion of total revenue remaining reasonable static during the period from 2005 to 2013. This can be compared with the lower borrowing cost percentage of the SSC (combined with lower asset expenditure) and a higher borrowing cost percentage of GIMC (combined once again with lower asset expenditure).

A further indicator on the next page (Graph 2.3) indicates that the increase in total liabilities as a proportion of revenue has been reasonably static, and comparable with both the GIMC and SSC. Therefore, the growth in borrowings post amalgamation has been in line with the growth in overall revenue of Council.

Graph 2.3 Liabilities as a Proportion of Revenue:

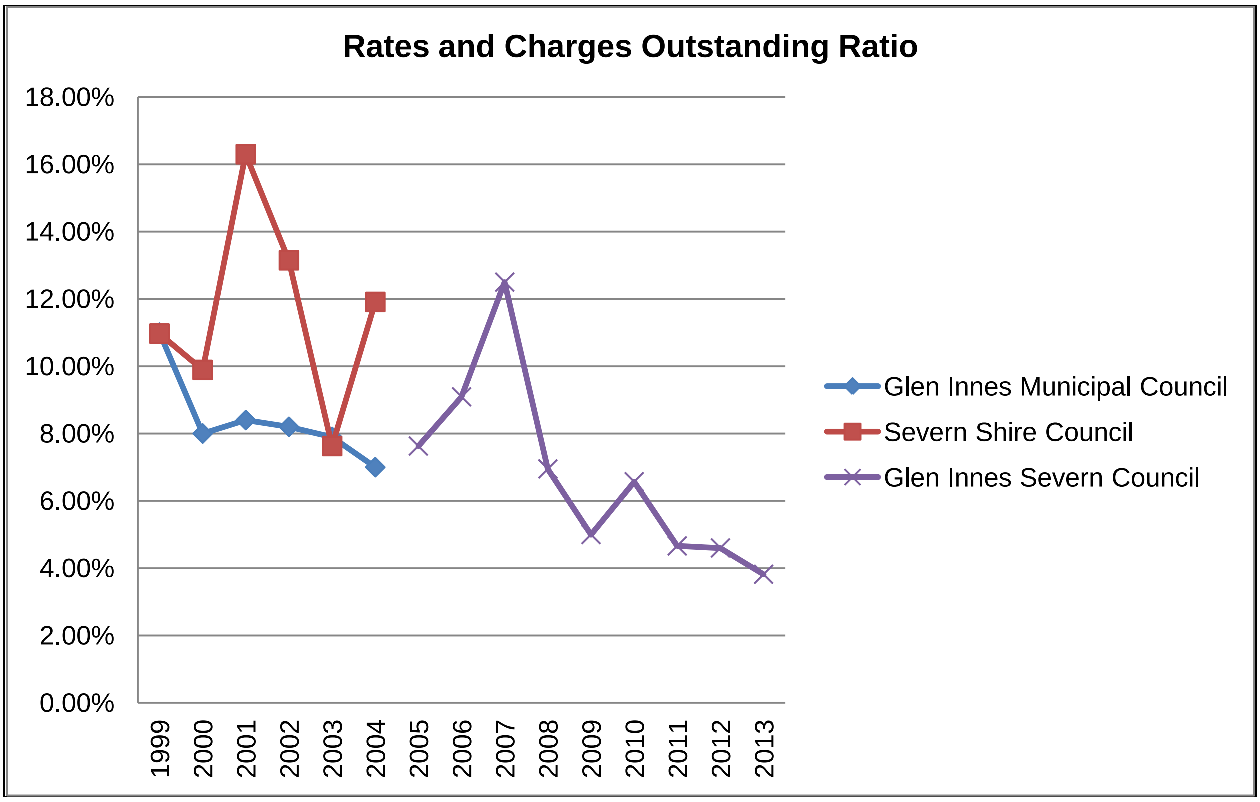


Graph 3.1 Rates Coverage Ratio:



The Rates Coverage Ratio, shown above for GISC, is very similar to the two (2) prior Councils. All indicate that as a proportion of total expenditure, rates and annual charges comprise a relatively small proportion of revenue. This ratio is indicative of the need to raise rates and annual charges. A similar ratio comparison with neighbouring Councils can be seen in the TCORP report Figure 16 – Own Source Operating Revenue Ratio Comparison (Annexure B, page 26).

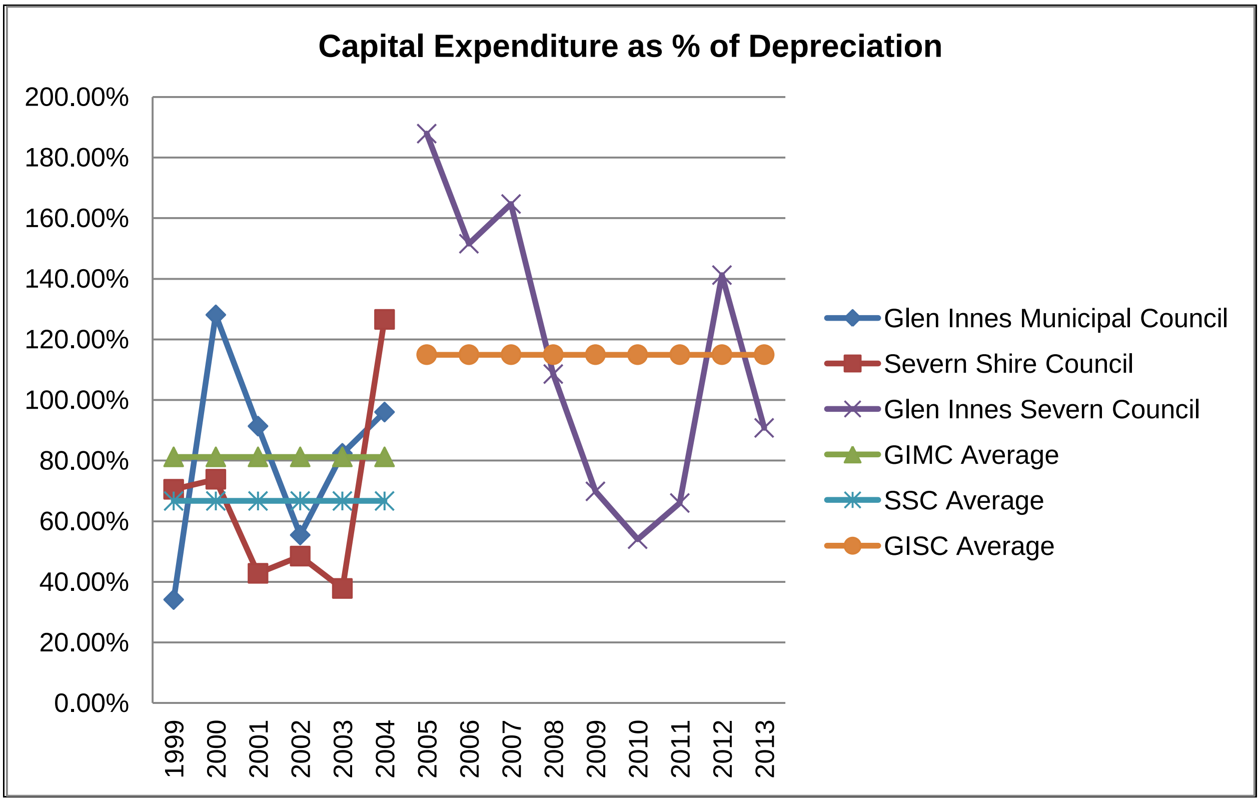
Graph 4.1 Rates and Charges Outstanding Ratio:



The Rates and Charges Outstanding Ratio indicates that GISC has successfully put a lot of work and emphasis on ensuring that outstanding rates and charges are maintained at a healthy level. The trend in Graph 4.1 above is impressive, with a significant reduction in outstanding monies over the last six (6) years. The ratio of below 4% should be compared with a ratio of above 16% in 2001. This ratio, combined with the difficult economic times, suggests that GISC is operating effectively in this regard.

This ratio also suggests that financial management (specifically debt recovery) procedures have improved.

Graph 5.1 Capital Expenditure as a Proportion of Depreciation:



Graph 5.1 indicates that the GISC has been spending significantly more on capital works as a proportion of depreciation when compared with the SSC and GIMC.

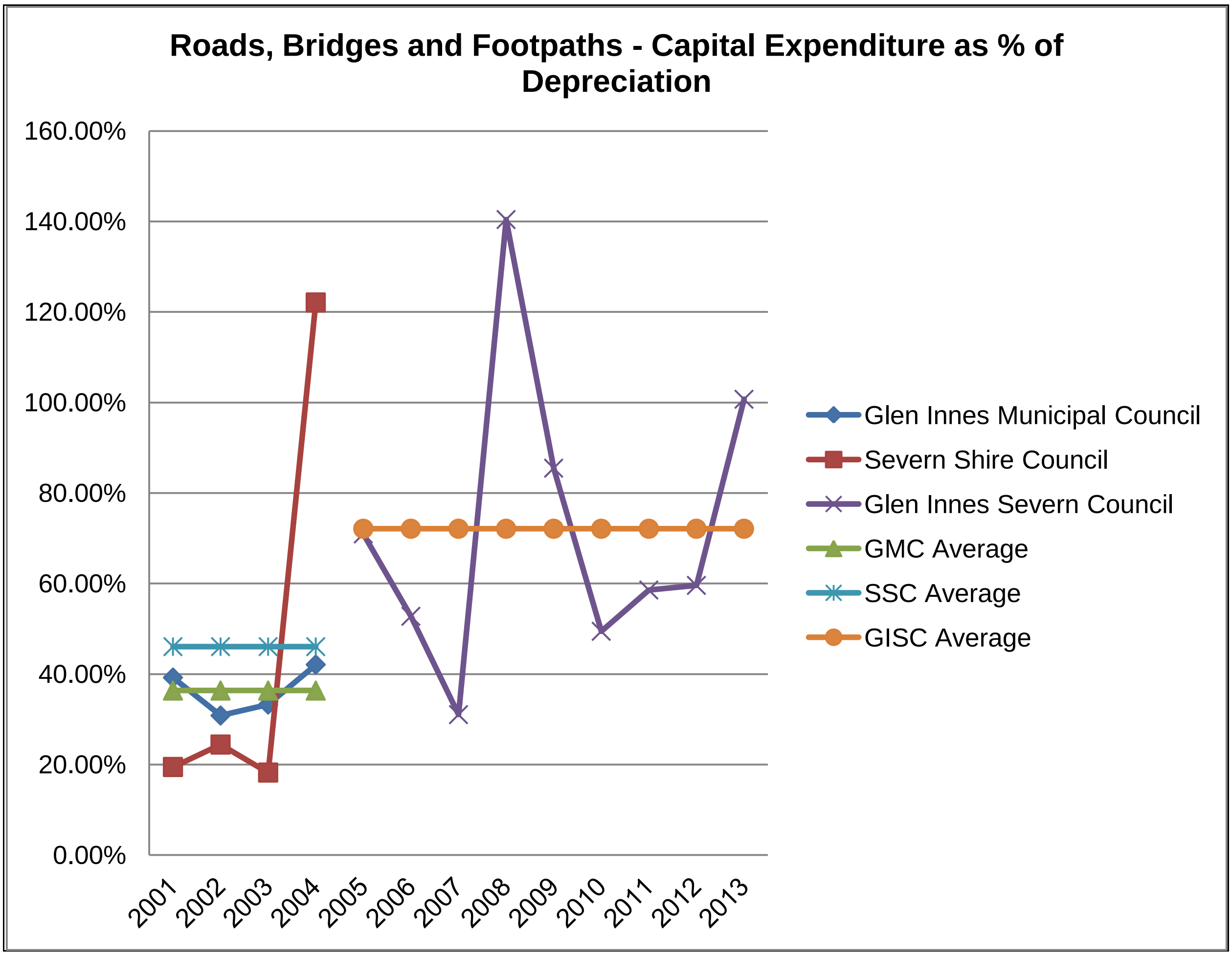
As the comparison uses capital expenditure as a proportion of depreciation, the ratios are not time sensitive (therefore the time value of money can be ignored). This indicates that GISC has increased total capital expenditure well above the average spent before amalgamation. A good proportion of this expenditure is represented by large projects, which were loan funded. As indicated above, this loan funding has been taken directly in proportion to the increase in the revenue of GISC.

A further method of comparison would be to equate capital expenditure as a proportion of total revenue. On this basis, the following can be identified:

Council	Capital Expenditure as a proportion of Total Revenue (Average)	Years measured
SSC + GIMC	18.15%	1999 to 2004
GISC	22.26%	2005 to 2013
Variance	**4.11%**	

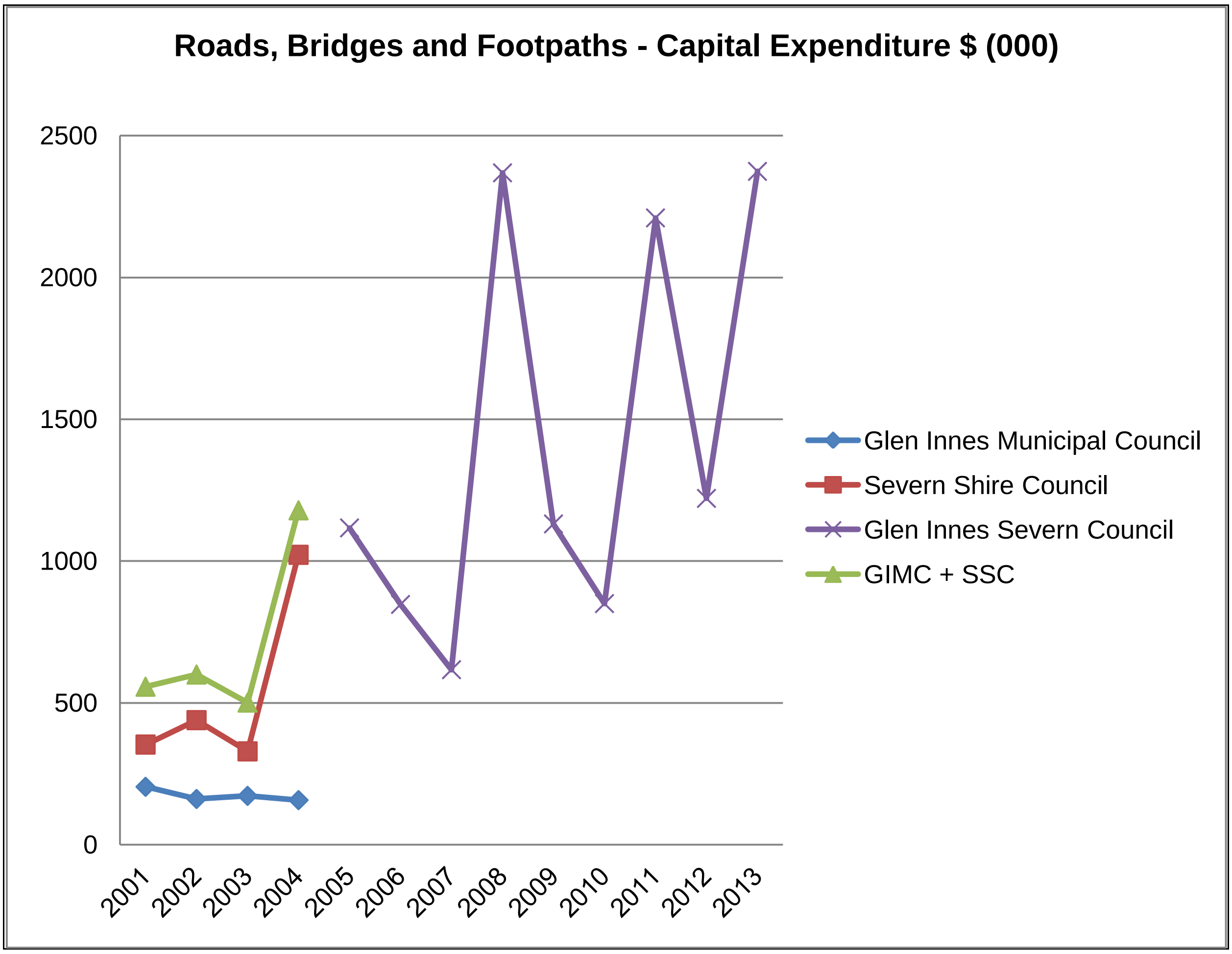
To put this variance into context based on the total revenue of GISC that is in the order of $24 million per annum, this equates to an annual variance of $986,400 on capital expenditure.

Graph 5.2 Capital Expenditure on Roads, Bridges and Footpaths as a Proportion of Depreciation (on those assets):



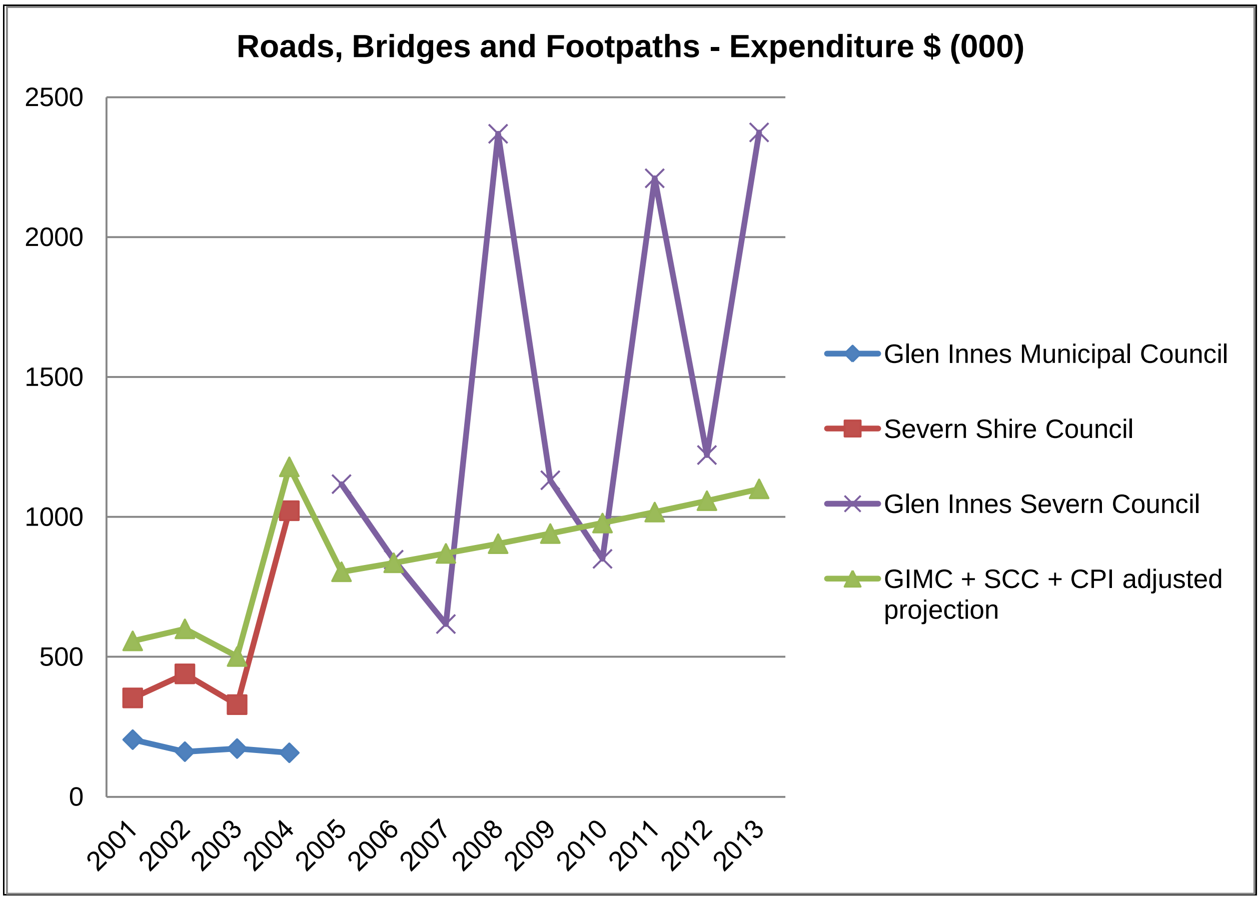
Similar to Graph 5.1 above, Graph 5.2 indicates that Council's capital expenditure on roads has improved significantly as a proportion of its depreciation. As a proportion comparison is used, the percentages in this graph are not cumulative. It therefore shows that GISC has been spending more on roads, bridges and footpaths than the SSC and GMC combined (as a proportion of depreciation).

Graph 5.3 Capital Expenditure on Roads, Bridges and Footpaths in $(000):



Based on Graph 5.2 above on the previous page, the suggestion could be made that Council has simply decreased the amount of depreciation and therefore improved its ratios. This is not correct. In Graph 5.3 above, the dollar value of capital works on roads, bridges and footpaths is indicated. This suggests that there has been a steady increase in works on roads, bridges and footpaths from a combined total of $557,000 in 2001, to a total of almost $2.374 million in 2013.

Graph 5.4 Capital Expenditure on Roads, Bridges and Footpaths in $(000) plus CPI projection for SSC and GIMC combined:



The Graph above indicates a Consumer Price Index (CPI) adjusted average for the four (4) years prior to amalgamation projected out at a CPI increase of 4%. (This was calculated by taking each year's combined road works for SSC and GIMC and adjusting it to a Net Present Value (NPV) with a discount rate of 4% in 2005, then averaging).

A further method of comparison would be to equate capital expenditure on roads as a proportion of total revenue. On this basis, the following can be identified:

Council	Capital Expenditure on Roads, Bridges and Footpaths as a proportion of Total Revenue (Average)	Years measured
SSC + GIMC	4.72%	2001, 2002, 2003 and 2004
GISC	6.87%	2005 to 2013
Variance	**2.15%**	

To put this variance into context, based on the total revenue of Council in the order of $24 million per annum, this would equate to an annual increase of $516,000 on roads, bridges and footpaths alone.

Summary of Ratios and Financial Indicators:

The financial indicators and Key Performance Indicators (KPIs) have improved considerably from pre-amalgamation in 1999 to 2013. These indicators, along with the independent review by TCORP in March 2013, confirm that GISC has been managed effectively.

Particular emphasis should be placed on the additional capital expenditure (Graph 5.1 to 5.3), combined with an improvement in financial ratios (Graph 1.1, 1.2, 1.3, 3.1 and 4.1), and planning for the future through responsible borrowing (Graph 2.1, 2.2 and 2.3).

Should an SRV application have been completed earlier?

This is a complex issue, requiring a good understanding of how Local Government in NSW works, and how the IP&R framework has been implemented.

Further matters that need to be understood are how Council receives grants and how the Grant Commission operates.

Important dates and events that have influenced the decision-making process associated with the SRV-application are as follows:

- The amalgamation of the former GIMC and SSC in the 2004/05 financial year;
- The Building and Infrastructure Renewal Ratio (B&IRR) was introduced as a KPI as part of the Audited Financial Statements for 30 June 2008;
- 30 June 2010 – CSP and DP (Group 1) implementation;
- 30 June 2011 – CSP and DP Group 2 implementation. Council volunteered to be in Group 2, one year ahead of requirements (Council was placed in Group 3);
- 30 June 2012 – CSP and DP Group 3 implementation;
- 23 June 2011 – Council adopted the original LTFP, AMPs, DP, OP, Workforce Plan (WP), CSP and Community Engagement Strategy (CES). (It should be noted that the LTFP included projected additional grant revenues (R2R 50% increase and FAG (roads component) $700,000 increase);
- 30 June 2011 – Revaluation of NSW Councils' assets to market value or replacement cost completed;
- 28 June 2012 – First review of Council's LTFP with the assumption that significant additional grant funding would be received – based on advice received from the Federal Government. This plan primarily dealt with the affordability of the *status quo* plus large capital works programs (e.g. swimming pool upgrade) that were identified by the community as part of the CSP consultation;
- 21 March 2013 – Independent assessment of Council finances by TCORP in respect of the LIRS loan. This report established the TCORP benchmarks by which Councils will need to report into the future;

- April 2013 – Council report adopting original 2013/14 OP (and budget) includes mention of SRV and need to investigate SRV (to meet TCORP benchmarks);
- 21 October 2013 – Meeting with the Grants Commission (GC) of NSW (who distribute the NSW portion of the FAGS). Council was advised that grant increases were unlikely and that it suggested GISC consider alternative funding sources, particularly using the LIRS subsidy and applying for an SRV;
- 8 November 2013 – Senior staff meeting with IPART to discuss the possibility of an SRV application;
- November 2013 – Revised LTFP prepared with no grant increases based on the advice received, and a Councillor Workshop held to discuss the effects;
- November 2013 – Council adopted a revised LTFP, Scenario 5 which included an SRV;
- December 2013 – revised AMP (Transport) and DP prepared to include possible SRV;
- December 2013 – Council lodged an application for $4 million in LIRS loan funding;
- January 2014 – Community Consultation Forums were held to discuss the LTFP and SRV;
- 20 February 2014 – An Extraordinary Council Meeting was held approving LTFP including SRV; and
- 24 February 2014 – An Application was lodged with IPART for SRV approval.

Prior to 2008, the building and infrastructure renewal ratio was not included as a key ratio in respect of Council's operations. Even after 2008, up to 2011, including the completion of the first integrated AMPs, no emphasis was placed on this indicator nor was there any direct correlation with financial planning for the majority of councils in NSW. The primary reason for this scenario was the fact that local councils had not yet valued all their assets at market value (or in the case of certain assets without an active market such as roads, at replacement cost). Therefore, no true estimate existed of the actual required capital works per annum.

The incorporation of this revaluation into Council's Financial Statements was only completed in June 2011 (DLG Circular to Councils – 12-09). Therefore, only after this point in time did Council receive a first draft of revaluations for all its assets, which gave a better idea of what should be spent per annum. On review of GISC Financial Statements (particularly for the 2010/2011 financial year) it is clear that reviews of depreciation and service levels resulted in (often material) changes in Council's operating position.

The introduction of the IP&RF, including the AMPs and the LTFP, was the first real push to integrate this planning and ensure that Council could afford to maintain its asset base, as well as the lifecycle cost of the asset base it had created. The IP&RF had not fully considered this and had not provided any benchmarks that had to be met. The main focus of the industry was therefore to meet goals set by the community in the CSP (such as upgraded Swimming Pools and the like).

At this time no specific emphasis was placed on the need to meet the TCORP benchmarks for Local Government, primarily as these were only 'released' or perhaps more accurately emphasised after the TCORP review in March 2013. Therefore, the first real overall consideration of the need to meet the new TCORP benchmarks was in March 2013. At this point, and in the same review, <u>TCORP noted that the increases in Council's Grant revenue were reasonable and therefore Council staff believed the LTFP did not need immediate review.</u>

Subsequently, in the preparation of the annual OP during March/April, it had been identified that additional savings and revenue increases would need to be made to improve GISC's operating position and asset management ratios. This triggered the introduction of the drainage charge, the decrease in the number of vehicles in Council's light fleet, sale of properties etc, which were identified and discussed in the OP report.

Moreover, in the OP and the previous LTFP, additional borrowings were identified to boost capital spending (i.e. the accelerated roads project which would equate to $1 million in borrowings for roads every second year). These were identified in the LTFP reviewed by TCORP, who noted that the borrowings were affordable and that Council could borrow an additional $4.8 million on top of that identified in the LTFP.

The OP report also identified the possibility of a smaller SRV of around $350,000 – primarily to boost asset spending combined with the grant increases expected at that time. However, in March 2013 it was too late to consider a SRV for the 2013/14 financial year.

There are significant additional factors which influenced the importance of various steps in the process. In particular, reports from the NSW Independent Local Government Review Panel (ILGRP) have played a significant role in pushing GISC and its staff to focus on the TCORP benchmarks (and financial sustainability in general) and the need to raise additional revenue, and therefore to apply for an SRV.

Based on the timeline and the overwhelming perception amongst rural councils that increases in the FAG roads component and the R2R grant were likely (which was confirmed to be reasonable by TCORP in March 2013) and then the advice from the GC in October 2013 that local councils were not going to receive an increase, it is clear that this was the first significant trigger for an SRV to be pursued (to make up the grant funding).

The possibility of not increasing grants had been considered by Council as part of the original budget. However, the aforementioned comment by TCORP served to stem these concerns. Therefore, GISC and GISC staff have acted very quickly thereafter to initiate and pursue the application for an SRV. In earlier years (2011 and 2012) Council was not in the position to accurately identify the true cost of its assets, and even if it were, there were clear indications that additional grant funding would offset a good portion of this additional spending.

As a result of the implementation of the IP&RF, Council has acted responsibly in:

a. Waiting until an accurate indication of required capital expenditure was prepared;
b. Attempting to source additional grant revenue rather than an SRV to fund this additional expenditure; and
c. Implementing cost savings and other revenue increases where appropriate.

The question of whether GISC acted responsibly with the information and resources available to it for the period from 2005 to 2011, specifically in respect of its capital expenditure, can be addressed with a comparison of Graphs 5.1, 5.2, 5.3 and 5.4 above. These aforementioned graphs suggest that GISC increased capital expenditure as a proportion of depreciation well above that of the combined pre-amalgamation councils. The dollar value of capital expenditure has also grown well above CPI. Therefore GISC has managed its assets responsibly, given its tight financial situation.

Should GISC have done even more than this? Should it have spent more of its cash reserves rather than improving its liquidity?

It may be argued that GISC could have marginally increased its capital expenditure at the expense of building cash reserves. However, the strategy implemented by GISC has now brought its liquidity up to the average for its group. Further, building up a cash reserve is a good financial strategy where Council is not in the position to spend enough to fully maintain assets, or where Council in the past has not spent enough. The idea is that a cash reserve acts as insurance for the breakdown of a bridge or the need for significant capital works (which unless they are funded through Natural Disaster Funding (NDF) will not generally be insured). The adopted strategy confirms that GISC has acted appropriately in this regard, and without additional revenue or an SRV, should not have spent more than it had.

In respect of whether the cash reserves should be deemed to be reasonable, once one excludes the significant amounts held as restrictions (approximately $11 million) it leaves $2 million available as working capital. Council spends around $25 million per annum. This means that $2 million is actually less than one (1) month's working capital. Therefore, when put into context, the increase in unrestricted cash reserves should be viewed as reasonable.

CONCLUSION

Based on the financial indicators presented within this report and the sequence of events since amalgamation up to the application for a Special Rate Variation (SRV), it can be clearly identified that Council has been well managed in respect of its finances and has improved in respect of its asset management (which has been limited by insufficient funding).

Specific improvements since amalgamation include an improved operating position, an improved quantum of capital expenditure expressed both as a dollar amount and as a percentage of depreciation, rates and charges outstanding have reduced significantly, the unrestricted current ratio has improved significantly, and borrowings have been made responsibly.

The timeline discussed in the body of the report demonstrates that in respect of applying for a SRV, Council was only really in the position to responsibly start the application process for a SRV in the 2013/14 Financial Year.

Council has been spending more on assets since amalgamation and Council has been justified in applying for an SRV to ensure that asset spending can improve further.

Industry recognised financial indicators show that Council has improved after amalgamation, with some of these indicators also showing an improvement in internal financial processes (such as the Rates and Charges Outstanding Ratio).

It could therefore be reasonably concluded that GISC has been managed well since the amalgamation of the former GIMC and SSC in 2004. Further, Council has acted responsibly and appropriately in not pursuing an SRV earlier than in the 2013/14-Financial Year.

Acknowledgement:

The above report has largely been based on a report that was prepared by Council's Director of Corporate and Community Services, Anna Watt, and Council's Manager of Finance, Eric Brown, for the Ordinary Council Meeting that was held on 27 March 2014.

References:

Glen Innes Municipal Council, *Audited Financial Statements* (1998/99 – 2003/04)

Glen Innes Severn Council, *Audited Financial Statements,* (2004/05 – 2011/12)

Independent Local Government Review Panel, *Future Directions for NSW Local Government: Twenty Essential Steps,* April 2013

NSW Treasury Corporation, *Glen Innes Severn Council: Financial and Benchmarking Report,* March 2013

Severn Shire Council, *Audited Financial Statements,* (1998/99 – 2003/04)

Fit for the Future Proposal

Annexure 3: Note 28 – GPFS 2013/14

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)

$ '000

Review & Commentary on Council's Financial Result

Overall/ General Fund - The Income Statement identified a profit of $772,000 before capital items, compared with a budget of ($267,000) this improvement was caused by grant funding from the State and Federal Government for the Aerodrome Flight School (AAFT). This grant funding was partly offset by a loss of the advance portion of the grant funding from the Commonwealth Government, known as the Financial Assistance Grant (FAG).

The operating position is satisfactory, with a operating position after Capital items of ($898,000) which equates to an Operating Performance Ratio of (3.96%) marginally above the TCORP benchmark of (4.00)%. However, ideally Council should achieve an operating surplus position both before and after capital items each year (or at least on a rolling average over three years).

It is expected that this ratio will improve in the next three financial years due to the influence of the Special Rates Variation. Furthermore, it is expected that Council will achieve a profit position (after removing capital grants/contributions) within the next two financial years.

Income by Fund	**Glen Innes Aggregates**	**Water Fund**	**Sewer Fund**	**General Fund**
$ '000	**2014**	**2014**	**2014**	**2014**
Operating Revenue	1,692	1,898	1,459	19,797
Operating Expenditure	1,571	1,845	1,249	19,409
Operating Position (Profit)	**121**	**53**	**210**	**388**

As indicated above, all funds achieved an operating surplus before removing capital grants/contributions.

Water Fund - The water fund achieved a small operating surplus of $53,000 which is an improvement on earlier years, however, Council should focus on slowly increasing fees to obtain a surplus (both cash and operating) while maintaining its capital expenditure (asset renewal) and building cash reserves.

Sewer Fund - The sewer fund achieved an operating profit of $210,000, this is a good result and should be maintained by increasing annual fees and charges in line with the Consumer Price Index for sewer related costs.

Glen Innes Aggregates - The quarry achieved an operating profit of $121,000 which is healthy, however, this profit should be improved to assist in repaying the interfunding and external (NAB) loan.

Review & Commentary on Council's Financial Position

Asset Review by Fund	**Glen Innes Aggregates**	**Water Fund**	**Sewer Fund**	**General Fund**
$ '000	**2014**	**2014**	**2014**	**2014**
Current Assets	839	425	2,688	13,699
Current Liabilities (in accordance with Note 21)	54	144	134	11,604
Net Current Assets	**785**	**281**	**2,554**	**2,095**
Non Current Assets	514	19,206	12,761	204,616
Non Current Liabilities	892	2,389	1,903	452
Net Non Current Assets	**- 378**	**16,817**	**10,858**	**204,164**
Total Net Assets	**407**	**17,098**	**13,412**	**206,259**

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)

$ '000

Review & Commentary on Council's Financial Position (continued)

Overall - Council is in a strong financial position in respect of Net Assets, total of $237,175,000, total liabilities of $17,574,000 and total current assets of $17,651,000. This has led to a strong unrestricted current ratio of 4.13:1, working funds surplus of $4,484,000 and a Cash Expense Cover Ratio of 9.24 months. This suggests Council is in a strong position capable of carefully taking on more debt to service its infrastructure backlog (in particular bridges and other long lived assets).

Water Fund - It is suggested that Council budgets for a cash surplus in the next few years to rebuild cash reserves held in the Water Fund, this should be balanced with a marginal increase in water charges while maintaining capital expenditure at 1:1 asset renewal ratio. However, unless absolutely required no new asset construction should be undertaken.

Sewer Fund - It is suggested that Council uses the significant cash reserves of over $2.6 million built up in the sewer fund to address the fund's infrastructure backlog. The fund has the highest infrastructure backlog of 0.20 of all three funds. However, to put this into perspective, the $2.6million in cash reserves is more than the identified infrastructure backlog of $2.4million.

Glen Innes Aggregates - The quarry is in a reasonable financial position with net assets of $407,000. However, Council should focus on ensuring that the interfund debt is repaid. This should rectify itself in future years.

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)

$ '000	Amounts 2014	Indicator 2014	Prior Periods 2013	2012

Further to the Note 13(a) Industry Performance Measures, Council monitors the following :

1. Own Source Revenue (including Grant funding received as a fee for service)

	Amounts 2014	Indicator 2014	2013	2012
Own Source Revenue (plus Grants for Aged and Disability Services) ('000)	17,878	72.01 %	74.18 %	N/A
Total Operating Revenue (Including Grants) ('000)	24,826			

Council has a significant Aged and Disability service which benefits the community, the service is grant funded and this can skew the Own Source Operating ratio. The grant funding received is effectively a fee for service and therefore Council includes this grant revenue when identifying its Own Source Operating Revenue Ratio. Once one includes this grant revenue, Council is in a very healthy position in respect of its OSOR ratio. This ratio measures the ability of a Council to withstand fluctuations in its grant revenue, the higher the ratio the more resistant (stronger) a Council is. A ratio above 60% is considered satisfactory.

2. Current Ratio

	Amounts 2014	Indicator 2014	2013	2012
Total Current Assets ('000)	17,651	5.05 : 1	6.96 : 1	N/A
Total Current Liabilities ('000)	3,495			

The current Ratio is a common benchmark in the for-profit sector. This benchmark measures the ratio of current assets to current liabilities and measures an organisations ability to pay short-term obligations. The Unrestricted Current Ratio is favoured in local government, but is important to keep this ratio in context when determining Councils overall liquidity.

3. Operating Performance - Glen Innes Aggregates

	Amounts 2014	Indicator 2014	2013	2012
Net Profit (Glen Innes Aggregates) ('000)	121	7.15 %	11.61 %	18.78 %
Total continuing operating revenue ('000)	1,692			

This indicator monitors the operating profit achieved by Glen Innes Aggregates in the last three financial years. The ratio is declining, but this has more to do with non-cash/book stock adjustments in earlier years than the underlying business profit. Glen Innes Aggregates has achieved a cash profit this financial year and the operating performance is very positive.

4. Operating Expenditure ($) per Capita

	Amounts 2014	Indicator 2014	2013	2012
Total Operating Expenditure ('000)	24,074	2,703.43	2,776.82	2,756.54
Population of Glen Innes Severn LGA ('000)	9			

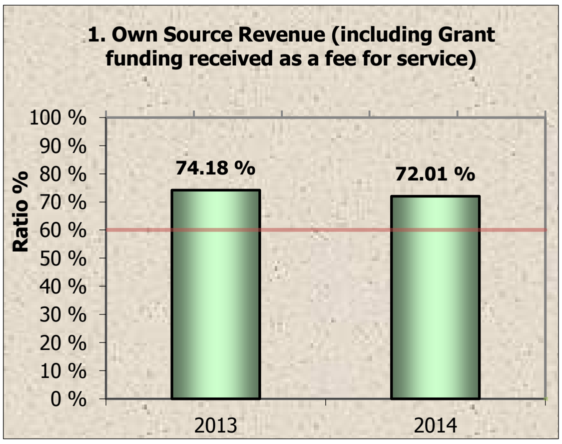
This indicator identifies the overall cost of services provided per resident of the Local Government Area. The ratio is intended to identify the total cost of all services provided per person, to ensure that Council is not increasing its expenditure above the Consumer Price Index for the services it provides.

Individual graphs relating to the above Indicators are provided on the next page.

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)



—— Minimum 60.00 %

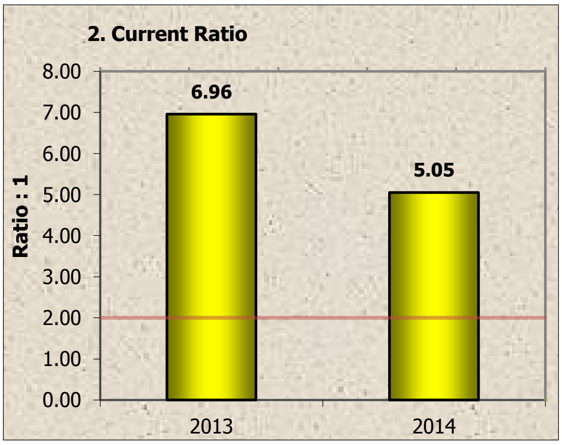
Purpose of 1. Own Source Revenue (including Grant funding received as a fee for service)

To measure the ability of the organisation to withstand changes in grant funding.

Commentary on 2013/14 Result

2013/14 Ratio 72.01 %

This ratio is healthy, well above the 60% benchmark identified by the OLG (bearing in mind the adjustment made to the formula - as discussed above).



—— Minimum 2.00 : 1

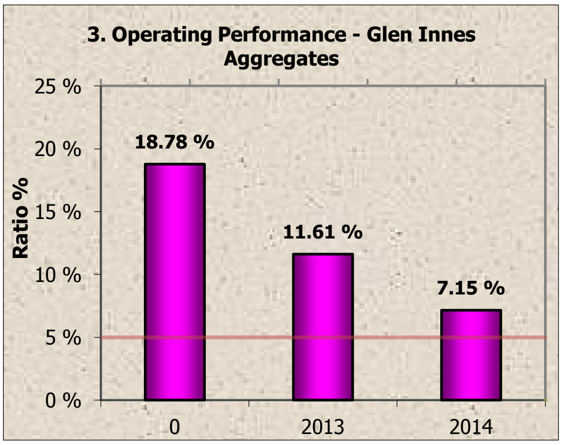
Purpose of 2. Current Ratio

To measure the ability of the organisation to meet short term obligations.

Commentary on 2013/14 Result

2013/14 Ratio 5.05 : 1

This ratio is very healthy, suggesting Council is in a strong position to meet short term obligations.



—— Minimum 5.00 %

Purpose of 3. Operating Performance - Glen Innes Aggregates

To measure the profitability of Glen Innes Aggregates.

Commentary on 2013/14 Result

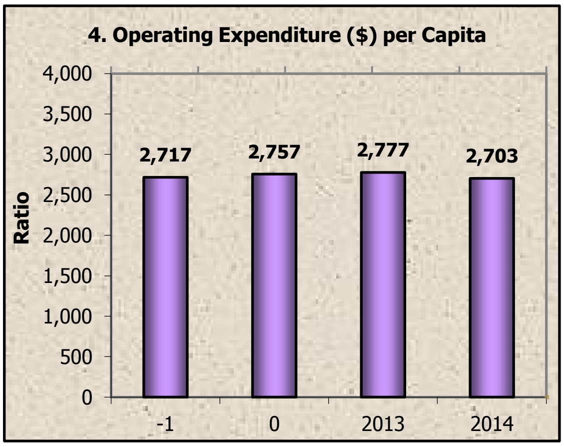
2013/14 Ratio 7.15 %

This ratio is healthy, identifying that Glen Innes Aggregates is continuing to realise operating profits. The ratio has decreased but is expected to stabilise and then improve with the introduction of campaign crushing.

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)



Purpose of 4. Operating Expenditure ($) per Capita	Commentary on 2013/14 Result
	2013/14 Ratio 2703.43
Total Operating expenditure divided by an estimate of the LGA population.	It should be noted that for the last four (4) financial years Council's operating expenditure per person have been higher than in the 2013/14 financial year identifying that Council has reduced its overall expenditure per person. It should be noted that the earlier year figures were not adjusted into the current years CPI therefore the decrease is larger than identified in the associated graph.

$ '000	Amounts 2014	Indicator 2014	Prior Periods 2013	Prior Periods 2012
TCorp Performance Measures - Consolidated				
a. Operating Performance				
Operating Revenue [1] (excl. Capital Grants & Contributions) - Operating Expenses	(888)	-3.83%	-4.53%	-0.27%
Operating Revenue [1] (excl. Capital Grants & Contributions)	23,186			
b. Own Source Operating Revenue				
Rates & Annual Charges + User Charges & Fees	11,023	44.35%	44.68%	N/A
Total Operating Revenue [1] (incl. Capital Grants & Contributions)	24,856			
b (1). Own Source Operating Revenue (Council Adjusted)				
Rates & Annual Charges + User Charges & Fees + Aged & Disability Services Grant Funding	14,749	59.34%	60.07%	N/A
Total Operating Revenue [1] (incl. Capital Grants & Contributions)	24,856			
b (2). Own Source Operating Revenue (Council Adjusted)				
Rates & Annual Charges + User Charges & Fees	11,023	52.17%	52.81%	N/A
Total Operating Revenue [1] (incl. Capital Grants & Contributions) Excluding Aged & Disability Services Grant Revenue	21,130			
c. Unrestricted Current Ratio				
Current Assets less all External Restrictions	12,316	4.13	4.62	3.46
Current Liabilities less Specific Purpose Liabilities	2,982			

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)

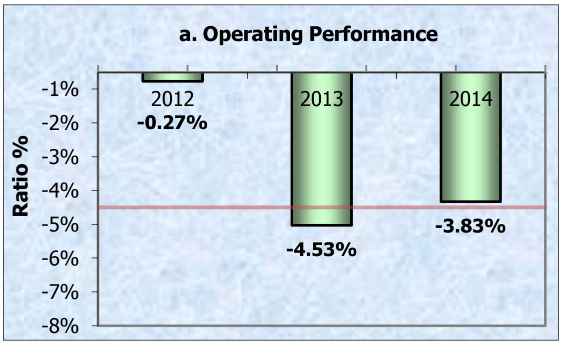
$ '000	Amounts 2014	Indicator 2014	Prior Periods 2013	Prior Periods 2012
TCorp Performance Measures - Consolidated (continued)				
d. Debt Service Cover Ratio				
Operating Result [1] before Interest & Depreciation (EBITDA)	5,204	3.18	3.34	4.78
Principal Repayments (from the Statement of Cash Flows) + Borrowing Interest Costs (from the Income Statement)	1,635			
e. Capital Expenditure Ratio				
Annual Capital Expenditure	5,593	1.08	0.87	1.37
Annual Depreciation	5,176			
f. Infrastructure Backlog Ratio				
Estimated Cost to bring Assets to a Satisfactory Condition	24,412	0.12	0.12	0.14
Total value of Infrastructure, Building, Other Structures & Depreciable Land Improvement Assets	202,387			
g. Asset Maintenance Ratio				
Actual Asset Maintenance	1,925	0.94	0.74	0.63
Required Asset Maintenance	2,056			
h. Building & Infrastructure Renewals Ratio				
Asset Renewals	3,917	0.94	0.88	0.55
Depreciation of Building and Infrastructure Assets	4,180			
i. Cash Expense Cover Ratio				
Current Year's Cash & Cash Equivalents x12	14,513	9.69	8.64	6.98
(Total Expenses - Depreciation - Interest Costs)	1,499			
j. Interest Cover Ratio				
Operating Results before Interest & Depreciation (EBITDA)	5,204	5.68	5.58	N/A
Borrowing Interest Costs (from the income statement)	916			

[1] Excludes fair value adjustments and reversal of revaluation decrements

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)



—— Minimum -4.00%

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

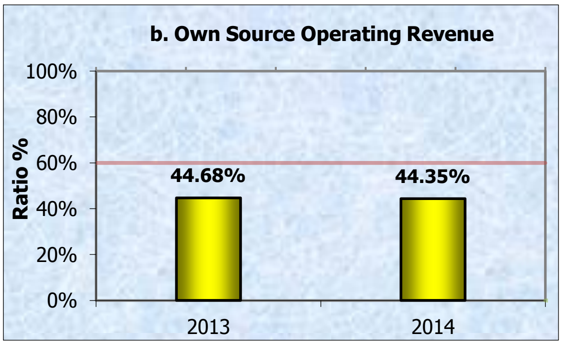
Purpose of Operating Performance Ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on 2013/14 Result

2013/14 Ratio -3.83%

The ratio is reasonable, but Council should aim at improving this ratio above 0% and eventually to around 4% to 5%. This will ensure Council can fund its asset renewals.



—— Minimum 60.00%

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

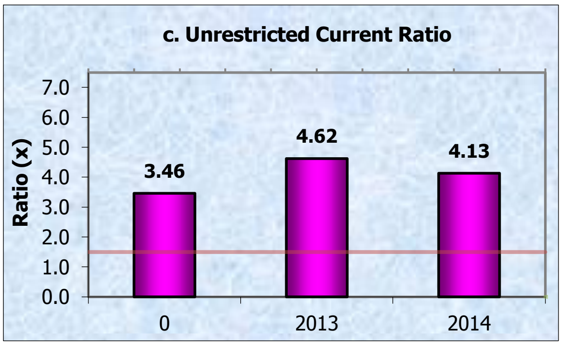
Purpose of Own Source Operating Revenue Ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.

Commentary on 2013/14 Result

2013/14 Ratio 44.35%

The Own Source Operating revenue ratio (with a different methodology to that identified in Note 13) does not include other income and therefore can be largely ignored.



—— Minimum 1.50

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

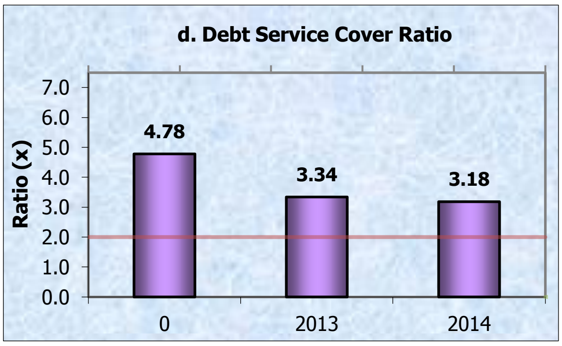
Purpose of Unrestricted Current Ratio

To assess the adequacy of unrestricted working capital and Council's ability to meet short term obligations as they fall due.

Commentary on 2013/14 Result

2013/14 Ratio 4.13

The unrestricted current ratio is very healthy and well above the suggested benchmark of 1.5.



—— Minimum 2.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

Purpose of Debt Service Cover Ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2013/14 Result

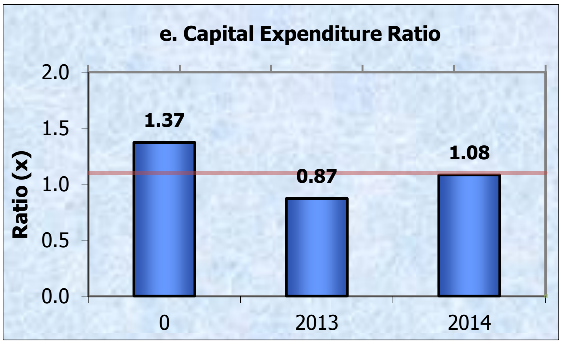
2013/14 Ratio 3.18 x

The Debt Service Cover Ratio is healthy and is well above the suggested benchmark of 2.00.

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)



Minimum 1.10

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

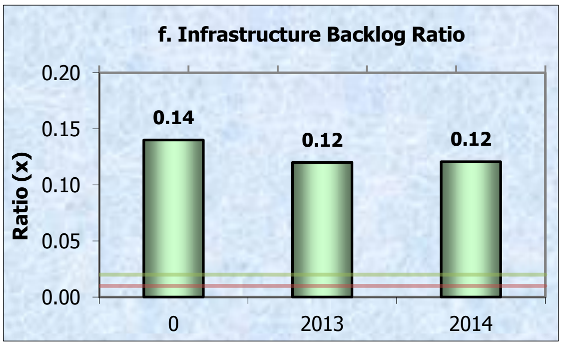
Purpose of Capital Expenditure Ratio

This ratio assesses the extent to which a Council is expanding its asset base with capital expenditure (on new assets, replacement & renewal of existing assets).

Commentary on 2013/14 Result

2013/14 Ratio 1.08 x

The capital expenditure ratio is healthy and over the three years will be very close to the required benchmark of 1.10. Council should ensure that it focuses Capital expenditure on the renewal of assets except where new assets will result in cost/operational savings.



Minimum 0.01 Maximum 0.02

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

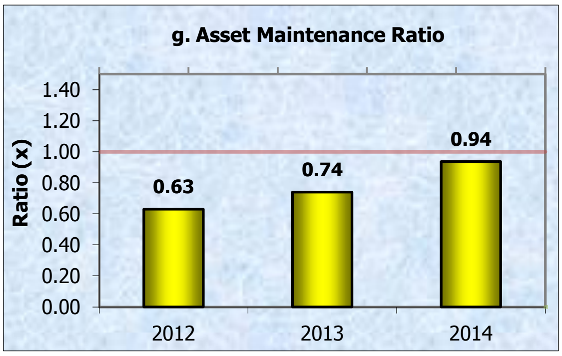
Purpose of Infrastructure Backlog Ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2013/14 Result

2013/14 Ratio 0.12 x

The Infrastructure backlog ratio is well above (worse) than the benchmark. Council should focus on ensuring the asset renewal ratio stays above 1:1 to address the backlog. However, any solution will need to be a long term one.



Minimum 1.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

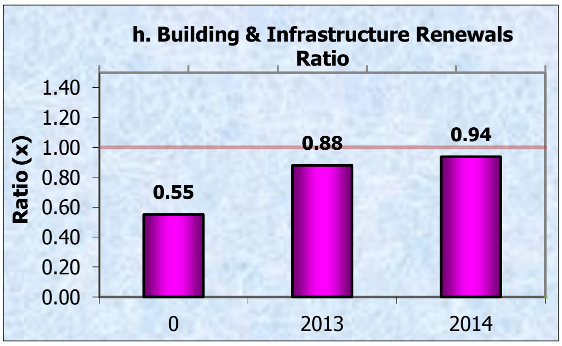
Purpose of Asset Maintenance Ratio

Compares actual vs. required annual asset maintenance. A ratio of > 1.0x indicates enough has been spent to stop the Infrastructure Backlog from growing.

Commentary on 2013/14 Result

2013/14 Ratio 0.94 x

The asset maintenance ratio is improving - Council has had a specific emphasis on improving this ratio and this can be seen in the accompanying graph.



Minimum 1.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

Purpose of Asset Renewals Ratio

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2013/14 Result

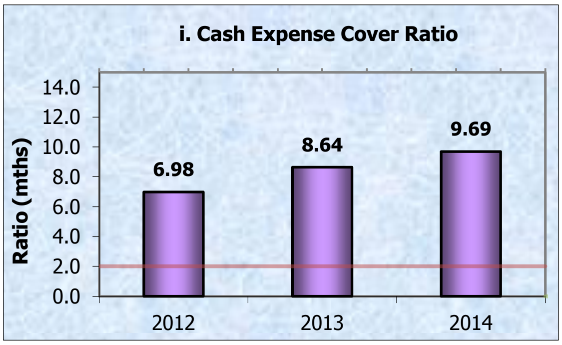
2013/14 Ratio 0.94 x

The building and infrastructure renewal ratio is improving but has not yet hit the 1:1 mark. Council should continue to focus on this ratio to ensure that it can start to address the infrastructure backlog.

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)



Purpose of Cash Expense Cover Ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

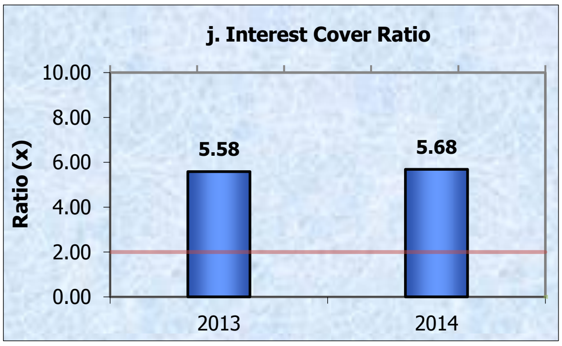
Commentary on 2013/14 Result

2013/14 Ratio 9.69 mths

The cash expense ratio is very healthy and improving, suggesting that Council could operate for almost ten months without any additional revenue.

—— Minimum 2.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)



Purpose of Interest Cover Ratio

This ratio indicates the extent to which a Council can service (thru operating cash) its interest bearing debt & take on additional borrowings.

Commentary on 2013/14 Result

2013/14 Ratio 0.00 x

The interest cover ratio is healthy and reasonably static suggesting that Council is borrowing responsibly.

—— Minimum 2.00

Source for Benchmark: TCorp Sustainability Review of NSW Local Govt. (2013)

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)

$ '000

Question & Answers relating to Council's Financial Statements

Q. Will Council be amalgamated?

A. *It is unlikely that Council will be amalgamated, the latest Independent Local Government Review Panel report suggested that Council be left as a separate Council within the Northern Tablelands Group. The State Government response echoed these thoughts, however, the process has identified that Council must take strong action to improve its sustainability and in particular address its infrastructure backlog. This is the focus of the Special Rates Variation that was approved earlier this financial year. It is expected that this increase in rates will improve Councils roads and bridges and in so doing reduce the infrastructure backlog.*

Q. Council has a significant amount of debt, can Council repay all of it?

A. *Council does have over $12 million in long term loans which it used to purchase various larger assets (such as water storage, sewer treatment, bridges etc). However, when one considers the fact that Council has more than this over $14 million in cash in the bank, the loans are not so significant. This can be seen in Councils Debt Service, and Interest Cover Ratio (above) which are both healthy and well above the accepted benchmark. In fact, in a review of Local Government, the NSW Treasury Corporation suggested Councils should borrow more. Obviously, this must be done carefully, but the truth is Council can afford to borrow to pay for large infrastructure.*

Q. How is Glen Innes Aggregates faring, is it making money?

A. *Yes!, Glen Innes Aggregates has made three consecutive years of profit, with a profit of $121,000 this financial year. This is very healthy considering Council purchased the quarry primarily as a water storage site.*

Q. Can we see the effect of the Special Rates Variation in these financial statements?

A. *No, the Special Rate Variation will only take effect from the 2014/15 financial year and therefore these financial statements will note take any of this into account. However, when it does, Council will report on it separately so that you can know where your money is being spent.*

Q. With over $14million in the bank, why doesn't Council fix my road?

A. *The truth is Council will be spending more in future years on road works and over time this will improve the condition of roads, however, with over $237million in Infrastructure, Property, Plant and Equipment Council cannot afford to fix everyone's road, therefore must prioritise the worst roads. Further, there are other reasons Council cannot spend all of this money, Council must retain these funds both as working capital and to cash back external reserves (such as leave entitlements, unexpended grant funding etc).*

Q. Why doesn't Council stick to its budgets?

A. *With an organisation of Council's size the variations can also be quite significant, however, these adjustments are not generally due to the overspending of budgets but due to external factors such as additional grant revenue (AAFT this year) or loss of grant revenue (such as the change in FAG payment timing). For this reason, Council continually reviews its budgets, with quarterly reviews that are presented to Council for adoption. Council has strong internal controls on expenditure and this has led to improved budget control - however, due to the sphere in which Council operates budgets will always change.*

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)

$ '000

Question & Answers relating to Council's Financial Statements (continued)

Q. In 2012/13 Council increased the annual water charge from $150 to $250 per annum, where has all this money gone?

A. *As one can see from the operating position of the water fund, the fund is only at a small operating profit position, therefore the additional revenue raised by the increase in the charge was simply to obtain a breakeven position. It should be noted that as a business unit, the water fund should obtain a profit to ensure that the quality of water and water infrastructure can be maintained.*

Q. Will the Water and Sewer fund be removed from Council or will it be maintained?

A. *It is likely that the water and sewer funds will be retained by Council, this is good news for Council as it reduces the administrative burden on the remainder of Councils operations. If it were taken away, Council would be in difficult position, having to find additional revenue or cut costs dramatically. Further, it would be unlikely that any service charges would be reduced, if it were taken away as the administrative functions would still need to be performed. Therefore rate payers would not win (through reduced fees) if the business unit was transferred to a County Council, but would likely suffer an increase in other fees and charges or rates.*

Q. Has Council received approval for the Local Infrastructure Renewal Scheme (LIRS) Loan that it included as part of the Special Rate Variation process?

A. *No, unfortunately Council has not yet been advised of the success of its application (either good nor bad), as the results of the application have not been released (for any Council). Therefore Council is still hopeful that it will be able to address the bridge backlog through the LIRS Loan.*

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 28. Financial Commentary & Review (continued)

$ '000

Key Financial Figures of Council over the past 5 years (consolidated)

Financial Performance Figures	**2014**	**2013**	2012	2011	2010
Inflows:					
Rates & Annual Charges Revenue	**8,425**	7,840	7,081	6,914	6,574
User Charges Revenue	**2,598**	2,809	2,709	2,281	2,678
Interest & Investment Revenue (Losses)	**728**	612	653	692	688
Grants Income - Operating & Capital	**9,538**	8,443	11,677	11,156	9,586
Total Income from Continuing Operations	**24,846**	23,865	24,744	22,121	20,711
Sale Proceeds from I,PP&E	**247**	263	188	145	188
New Loan Borrowings & Advances	**-**	2,800	3,860	-	-
Outflows:					
Employee Benefits & On-cost Expenses	**9,757**	10,440	10,178	9,170	8,455
Borrowing Costs	**916**	832	766	516	536
Materials & Contracts Expenses	**5,122**	5,167	5,692	5,148	5,310
Total Expenses from Continuing Operations	**24,074**	24,728	24,547	24,193	2,131
Total Cash purchases of I,PP&E	**5,812**	4,428	7,077	4,246	2,330
Total Loan Repayments (incl. Finance Leases)	**719**	559	429	331	312
Operating Surplus/(Deficit) (excl. Capital Income)	**(898)**	(1,044)	(10)	(2,072)	(859)

Financial Position Figures	**2014**	**2013**	2012	2011	2010
Current Assets	**17,651**	16,750	14,549	13,028	12,248
Current Liabilities	**17,116**	16,633	14,182	11,027	3,193
Net Current Assets	**535**	117	367	2,001	9,055
Available Working Capital (Unrestricted Net Current Assets)	**4,484**	2,691	2,764	2,444	1,549
Cash & Investments - Unrestricted	**3,259**	482	87	115	349
Cash & Investments - Internal Restrictions	**6,264**	5,557	4,637	3,546	3,594
Cash & Investments - Total	**14,513**	13,686	10,911	9,794	9,474
Total Borrowings Outstanding (Loans, Advances & Finance Leases)	**12,260**	12,979	10,738	7,307	7,638
Total Value of I,PP&E (excl. Land & Earthworks)	**331,830**	333,033	322,623	356,638	356,538
Total Accumulated Depreciation	**125,343**	120,504	114,264	126,604	125,504
Indicative Remaining Useful Life (as a % of GBV)	62%	64%	65%	65%	65%

Source: Published audited financial statements of Council (current year & prior year)

Glen Innes Severn Council

Notes to the Financial Statements
for the financial year ended 30 June 2014

Note 29. Council Information & Contact Details

Principal Place of Business:
265 Grey Street
GLEN INNES NSW 2370

Contact Details

Mailing Address:
PO Box 61
GLEN INNES NSW 2370

Opening Hours:
8.30 am - 4.30 pm
Monday - Friday

Telephone: (02) 6730-2300
Facsimile: (02) 6732-3764

Internet: www.gisc.nsw.gov.au
Email: council@gisc.nsw.gov.au

Officers

GENERAL MANAGER
Hendrik Frederik BASSON

RESPONSIBLE ACCOUNTING OFFICER
Eric John BROWN

PUBLIC OFFICER
Anna Marie WATT

AUDITORS
CROWE HORWATH
149 Otho Street
INVERELL NSW 2360

Elected Members

MAYOR
Colin Roger PRICE

COUNCILLORS
Dianne Gladys NEWMAN
Colin Roger PRICE
Graeme John QUINN
Michael Derek SCHERF
Andrew PARSONS
Malcolm Ronald SCHUMACHER
James Robert GRAHAM

Other Information

ABN: 81 365 002 718

Fit for the Future Proposal

Annexure 4: Water Sewer Dividend Report

REPORTS

9.4 Financial Management: Payment of a Dividend from the Water and Sewer Funds

REPORT FROM: DIRECTOR OF CORPORATE AND COMMUNITY SERVICES
Author: Eric Brown – Manager of Finance

PURPOSE

The purpose of this report is to outline the criteria Council is required to meet under the Department of Water and Energy (DWE) *Guidelines for Best Practice Management of Water Supply and Sewerage* in order to pay a dividend from the surplus of its water supply and sewerage businesses.

While Council is considered to be substantially complying with the Guideline requirement for payment of a dividend from the 2012/13 and 2013/14 financial years, several accounting and auditing requirements need to be met before Council can apply to the Office of Water for approval to pay dividends.

EXECUTIVE SUMMARY

For Council to be able to pay a dividend from the surplus of its water supply and sewerage businesses, it must meet six (6) best practice criteria under the DWE guidelines as well as meet several accounting and auditing requirements. Council already substantially complies with the guidelines; the recommendations of this report will allow staff to see if Council satisfies the other necessary requirements.

The strategy behind the payment of a dividend is that as a business of Council, the business should make a competitive return based on the capital Council has invested. Business owners in the private sector would expect a return on their investments, and the same is true for Council as owner of these two (2) businesses.

<u>Why Council should pay a dividend from the water and sewer fund:</u>

1. It is a recommendation from the aforementioned Guidelines that Council pay a Tax Equivalent Dividend of $3 per assessment where the requirements are met;
2. The payment of a dividend from the Water and Sewer funds will unrestrict cash reserves for the General Fund. This may be seen as a positive: 1) if the water and sewer fund is to be conglomerated into a “County Council” system, Council will not lose as much in cash reserves, and 2) the funds can be spent on roads and bridges and may then be restricted or used for that purpose;
3. The payment of dividends from the Sewer fund is currently affordable, while dividends from the Water fund are expected to be affordable in the next financial year and onwards based on Council’s Long Term Financial Plan (LTFP);

4. The payment of dividends allows Council to favour road (or other asset) renewals over water and sewer fund renewals.

BACKGROUND

The Department of Water and Energy (DWE) (now Office of Water) *Guidelines for Best Practice Management of Water Supply and Sewerage* permit Local Water Utilities (LWUs) to pay a dividend from the surplus of water supply and sewerage businesses provided that the LWU has met six (6) best practice criteria:

1) Strategic Business Planning;
2) Pricing (including Developer Charges, Liquid Trade Waste Policy and Approvals);
3) Water Conservation;
4) Drought Management;
5) Performance Reporting; and
6) Integrated Water Cycle Management (IWCM).

A copy of the Best Practice Guideline requirements can be accessed at: http://www.water.nsw.gov.au/Urban-water/Country-Towns-Program/Best-practice-management/Planning-and-best-practice/default.aspx

To be eligible to make a dividend payment from a surplus, the LWU must:

a) Demonstrate best practice management compliance through an independent compliance audit report;

b) Obtain an unqualified financial audit report for its water supply and sewerage businesses; and

c) Resolve in a Council meeting open to the public that it has achieved “substantial compliance” with each of the criterion in the Best Practice Guidelines.

The independent financial audit report must also verify that the overhead re-allocation charges to the sewer and water business are fair and reasonable. The guidelines recommend that an effective costing methodology, such as activity based costing, should be utilised when calculating the overhead re-allocation charge so as to allow recovery only of the LWU’s share of the overhead costs.

The Guidelines specify that the dividend from surplus must not exceed 50% of the surplus in any one (1) year, with a maximum of $30 per assessment less a mandatory dividend for tax equivalents (currently a maximum of $3 per assessment), and that the total dividend from surplus paid in each rolling three (3) year period does not exceed the total relevant surplus in that period. The maximum additional dividend which could be paid is therefore $27 per assessment for each of the years when these criteria are met.

Prior to payment of a dividend from the surplus, the LWU must forward certain documents to the Office of Water, which will then advise the LWU whether it may pay the proposed dividend.

The guidelines recommend that Councils facing major capital expenditure for new or replacement infrastructure should defer paying a significant dividend from their surplus, as such a payment would directly increase the required typical residential bill. Major capital expenditure is defined as 3% of the current replacement cost of the LWU's water or sewerage assets.

(a) Relevance to Integrated Planning and Reporting Framework
Nil.

(b) Financial Considerations
The financial considerations of a decision to pay a dividend are considerable in the long term; the key to making the correct decision is balancing the future requirements in respect of cash reserves between the water, sewer and general fund. These cash reserves, if paid to Council as a dividend, can then be allocated to asset renewal or to any other purpose Council decides.

The strategy behind the payment of a dividend is that as a business of Council, the business should make a competitive return based on the capital Council has invested. Business owners in the private sector would expect a return on their investments, and the same is true for Council as owner of these two (2) businesses.

<u>ASSET BACKLOG:</u>
Both the water and sewer funds also have infrastructure backlogs ($2.7 million and $3.608 million respectively). These backlogs can be seen as a percentage of total Asset Replacement Cost below:

	Asset Total Replacement Cost	Carrying Amount	Estimated cost to bring up to satisfactory	Backlog as a percentage of Asset Replacement Cost
General Fund	258,075	174,165	18,899	7.32%
Buildings	37,556	18,391	1,878	5.00%
Other Structures	13,863	7,147	693	5.00%
Public Roads	194,780	140,862	15,625	8.02%
Drainage Works	11,876	7,765	703	5.92%
Water Fund	33,710	17,778	2,703	8.02%
Sewerage Fund	28,851	16,877	3,608	12.51%

On first review it appears that it would not be appropriate to pay a dividend given the higher backlog percentages attributable to the Water Fund (8.02%) and Sewer Fund (12.51%) when compared with the General Fund (7.32%). However, when one reviews the dollar value of the backlog the General Fund's backlog is three (3) times as much.

<u>REVENUE ATTRIBUTABLE SPECIFICALLY FOR CAPITAL WORKS:</u>

The revenue directly attributable to the General Fund's assets is comparatively lower than that attributable to the Water and Sewer Fund. Based on the Long Term Financial Plan (LTFP) the Water and Sewer fund will address their backlogs in due course as the capital works attributable to each fund are higher than the depreciation allocated to their assets. In the case of the General Fund, if the Special Rate Variation (SRV) and the Local Infrastructure Renewal Scheme (LIRS) loan are approved, Council will, in approximately 20 to 25 years address the backlog for road infrastructure, but other assets (such as buildings and other assets) will not be addressed. This suggests that if the water and sewer funds can address their infrastructure backlog in the medium to long term, while paying a dividend, it would be appropriate to pay a dividend to the general fund for asset renewal.

The Own Source Operation Revenue ratio by fund below shows the fiscal flexibility available to the Water and Sewer fund compared with the General Fund.

The Operating Performance shows the Sewer Fund making a significant surplus, which is likely to be reflected by the Water Fund in current and future years.

The Building Infrastructure Renewal Ratio below indicates the amount of capital expenditure per fund, which was uncharacteristically low for the Sewer Fund last financial year. Based on the LTFP it is expected that as with the water fund, the sewer fund will have strong asset renewal ratios in future due to having available revenue and strong reserves. It should be noted that the General Fund had an uncharacteristically strong Building and Infrastructure Renewal ratio in 2013 due to the use of the LIRS funding to boost asset renewals.

$ '000		Water 2013	Sewer 2013	General[1] 2013
TCorp Performance Measures - by Fund				
a. Operating Performance				
Operating Revenue (excl. Capital Grants & Contributions) - Operating Expenses / Operating Revenue (excl. Capital Grants & Contributions)		-2.31%	13.15%	-6.00%
	prior period:	not required	not required	not required
b. Own Source Operating Revenue				
Rates & Annual Charges + User Charges & Fees / Total Operating Revenue (incl. Capital Grants & Contributions)		92.75%	86.76%	37.32%
	prior period:	not required	not required	not required
h. Building and Infrastructure Renewals Ratio				
Asset Renewals / Depreciation of Building and Infrastructure Assets		1.17	0.39	0.92
	prior period:	not required	not required	not required

<u>CAPACITY TO PAY (BASED ON CASH RESERVES):</u>

A further item that <u>must</u> be considered is the total cash reserves available to the water and sewer fund. Based on the 2014-15 Operational Budget, it is expected that the Water Fund will have a cash reserve of around $1.3 million and the Sewer Fund would have a cash reserve of $3.4 million. When comparing the total cash reserves to total asset value, it is clear that the cash reserves available to the water and sewer fund are, proportionally, in excess to that available for the general fund. This is also somewhat reflected in the Unrestricted Current Ratio by fund:

$ '000		Water 2013	Sewer 2013	General[1] 2013

Local Government Industry Indicators - by Fund

1. Unrestricted Current Ratio

		Water 2013	Sewer 2013	General 2013
Current Assets less all External Restrictions [1] / Current Liabilities less Specific Purpose Liabilities [2,3]		**3.97 : 1**	**20.01 : 1**	**4.62 : 1**
	prior period:	8.66 : 1	19.00 : 1	3.46 : 1

ELIGIBILITY TO PAY DIVIDEND:

Based on the 2012/13 financial year the Sewer Fund is eligible to pay a dividend of $66,750, with a maximum based on Sewer assessment numbers of $92,250. It is expected that in the current and future financial years the sewer fund will be eligible to pay the full allowable amount due to projected LTFP profits.

Note 3. Sewerage Business Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)		2013
1. Calculation and Payment of Tax-Equivalents [All Local Government Local Water Utilities must pay this dividend for tax-equivalents]		
(i)	Calculated Tax Equivalents	-
(ii)	No of assessments multiplied by $3/assessment	9,225
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	-
(iv)	Amounts actually paid for Tax Equivalents	-
2. Dividend from Surplus		
(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	66,750
(ii)	No. of assessments x ($30 less tax equivalent charges per assessment)	92,250
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2013, less the cumulative dividends paid for the 2 years to 30 June 2012 & 30 June 2011	129,500

2013 Surplus	133,500	2012 Surplus	62,000	2011 Surplus	(66,000)
		2012 Dividend	-	2011 Dividend	-

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	66,750
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	-

Based on the 2012/13 financial year the Water Fund is not eligible to pay a dividend in this year, due to significant losses in earlier years (prior to the increase of the water connection fee from $100 to $250). In future years, from 2014/15 onwards, the Water fund is expected to be eligible for a maximum dividend of $98,250 (based on assessment numbers).

Note 2. Water Supply Business
Best Practice Management disclosure requirements

Dollars Amounts shown below are in WHOLE DOLLARS (unless otherwise indicated)		2013
1. Calculation and Payment of Tax-Equivalents [All Local Government Local Water Utilities must pay this dividend for tax-equivalents]		
(i)	Calculated Tax Equivalents	-
(ii)	No of assessments multiplied by $3/assessment	9,825
(iii)	Amounts payable for Tax Equivalents [lesser of (i) and (ii)]	-
(iv)	Amounts actually paid for Tax Equivalents	-
2. Dividend from Surplus		
(i)	50% of Surplus before Dividends [Calculated in accordance with Best Practice Management for Water Supply and Sewerage Guidelines]	-
(ii)	No. of assessments multiplied by $30/assessment, less tax equivalent charges/assessment	98,250
(iii)	Cumulative surplus before Dividends for the 3 years to 30 June 2013, less the cumulative dividends paid for the 2 years to 30 June 2012 & 30 June 2011	(1,132,000)
	2013 Surplus (38,000); 2012 Surplus (592,000); 2012 Dividend -; 2011 Surplus (502,000); 2011 Dividend -	
(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	n/a
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment Criteria]	-

With the above in mind, it is suggested that it would be appropriate for Council to proceed with the approval process and then annually review the ability to pay a dividend to the General Fund from the Water and Sewer Fund. This decision should be made each year when Council reviews the LTFP, Operational Budget and the Annual Financial Statements.

Based on this financial review, it may be more appropriate in earlier years to pay dividends from the sewer fund exclusively until the water fund is in a stronger position.

COMMENTARY
Council is considered to substantially comply with the six (6) Best Practice Outcomes:

1) Council has adopted sound Strategic Business Plans for Water and Sewerage, including robust financial and capital works plans;
2) Council has adopted water, sewer and trade waste pricing and developer contributions plans for sewer and water, which are consistent with the requirements in the DWE guidelines;
3) Sound water conservation and demand management measures are in place;
4) Sound drought management measures are in place;

5) Council's performance reporting to the NSW Office of Water is highlighted in the associated business paper report, item number 9.15; and
6) Council has completed an Integrated Water Cycle Management (IWCM) strategy and this strategy meets the requirements of the NSW Office of Water.

The 2012/13 Performance Monitoring report (page 78) indicates that Council has achieved 100% compliance for both water and sewer funds.

Based on these items, it is suggested that Council can resolve it has achieved "substantial compliance" with each of the six (6) best Practice Guideline criteria identified above.

The guidelines also require an independent compliance audit report to be undertaken. Council's statutory financial audits are not directly required to address Council's compliance with the aforementioned Guideline requirements, nor do they require a specific assessment of the overhead re-allocation charges. Council's auditors have in the past conducted a review of the administration overhead allocation; however, they were not required to make specific comment on this matter.

Council would need to seek an unqualified independent financial audit report on these matters as well as achieving an unqualified audit report on the Business Units as part of the statutory financial audits at end of year. It should be noted that the audit for the 2012/13 financial year was unqualified.

There is one (1) potential area which may impact on the NSW Office of Water's approval to pay a dividend: Council's current accounting system does not use a formal activity based costing methodology to allocate its overhead re-allocation charge (the contribution from the Sewer and Water funds to the General Fund). For this reason there is a risk that the auditors may disagree with the costing methodology and the Office of Water may therefore not approve any dividend payments until a formal methodology is adopted for this allocation. Council's current system allocates the administrative portion of overheads which do not relate to governance (the cost of democracy) to individual sections based on the proportion of wages each of those sections represent as part of the total wages 'bucket'. Within each of these sections, the portions are then broken down by the proportion of expenditure within each of these sub functions. Council's statutory auditors have accepted this methodology in prior years, as it is reasonably representative of an activity based costing system. The difficulty with further elaborating on this system to improve accuracy is that one can spend significant amounts of money and time to do so, and in the end the accuracy is unlikely to be significantly improved. Furthermore, due to the constantly changing nature of Council, one would need to continually review the system if it was truly based on strict Activity Based Costing principles.

With this in mind, there is a risk that the audit may indicate that the overhead re-allocation charges are excessive and that the current contributions from the Sewer and Water funds to the General Fund should be reduced. However, this is considered unlikely given that there are arguments available to counter suggestions of this nature.

<u>Why Council should pay a dividend from the water and sewer fund:</u>

1. It is a recommendation from the aforementioned Guidelines that Council pay a Tax Equivalent Dividend of $3 per assessment where the requirements are met;

   "...each utility which has implemented all the requirements of the Framework is encouraged to pay an 'efficiency dividend' from the surplus of its water supply and sewerage businesses to the council's general revenue."

   It should be noted that in accordance with the Office of Water website "*Local water utilities are encouraged to pay such a dividend which will move them towards 'upper bound' pricing, which is required under the National Water Initiative, where practicable"* and *"Compliance with the framework is also a requirement for financial assistance towards the capital cost of backlog infrastructure under the NSW Government's Country Towns Water Supply and Sewerage Program."*

2. The payment of a dividend from the Water and Sewer funds will unrestrict cash reserves for the General Fund. This may be seen as a positive: 1) if the water and sewer fund is to be conglomerated into a "County Council" system, Council will not lose as much in cash reserves, and 2) the funds can be spent on roads and bridges and may then be restricted or used for that purpose;

3. The payment of dividends from the Sewer fund is currently affordable, while dividends from the Water fund are expected to be affordable in the next financial year and onwards based on Council's LTFP. This must be carefully monitored to prevent Council from drawing down cash reserves below a reasonable threshold, particularly in consideration of the current loan repayments from both funds combined with an increased capital works programme to address the infrastructure backlog;

4. The payment of dividends allows Council to favour road (or other asset) renewals over water and sewer fund renewals. This is for Council to determine in respect of Community priorities. It can also be used to prevent the build up of reserves, which could be better spent in the short term for other projects.

<u>Recommended action for Council's consideration:</u>
The intention of this report is for Council to: 1) resolve that it has achieved "substantial compliance" with each of the six (6) best Practice Guideline criteria identified above, and 2) approve Council staff to engage Council's auditors to perform the audit required for Council to receive approval to pay the dividend.

The exact amount of the full dividend to be paid in the 2013/14 financial year will then be confirmed by Council as part of the end of financial year process (in September/October this year). For obvious reasons, the amount can only be confirmed then, as the true profit will only be established at that point in time (therefore the surplus and the amount payable in dividend can be calculated). The approval of the SRV, the success of the LIRS program and the overall financial position of the Water, Sewer and General Fund, both individually and consolidated, will all play a part in the determination of the amount of the proposed dividend.

It is further recommended that Council approve the payment of the efficiency dividend (of $3 per assessment as opposed to the $27 per assessment or general dividend) from both the Water and Sewer Fund for the 2013/14 financial year, given compliance indicated in the 2012/13 Performance Monitoring report.

(a) Governance/Policy Implications
Nil.

(b) Legal Implications
Nil.

(c) Social Implications
Nil.

(d) Environmental Implications
Nil.

(e) Economic/Asset Management Implications
The Asset Management considerations are considerable, as the payment of a dividend will re-allocate funds from the water and sewer fund to the General Fund. This will affect the availability of funds for asset renewal and asset maintenance.

COMMENTARY: MANAGER OF INTEGRATED WATER AND SUSTAINABILITY SERVICES
A local water utility which demonstrates best practice management by achieving the outcomes required by the NSW Best-Practice Management of Water Supply and Sewerage Framework (PDF 136 KB) will have effective and sustainable water supply and sewerage businesses.

The NSW best practice management framework is the key driver for reform of planning and management and for continuing performance improvement. The 19 requirements of the framework are shown in the Best-Practice Management of Water Supply and Sewerage Guidelines, which involve the following elements:

1. Integrated Water Cycle Management;
2. Strategic business planning;
3. Regulation and pricing of water supply, sewerage and trade waste:
   - Pricing;
   - Developer charges;
   - Liquid trade waste;
4. Water conservation;
5. Drought management;
6. Performance monitoring.

Compliance with the NSW best practice management framework is a prerequisite for payment of an 'efficiency dividend' from the surplus of a utility's water supply or sewerage business to the council's general revenue. Local water utilities are encouraged by the NSW Office of Water to pay such a dividend which will move them towards 'upper bound' pricing, which is required under the National Water Initiative, where practicable.

The NSW Office of Water Performance Monitoring Report for 2012-2013 confirms that Glen Innes Severn Council has met 100% of best practice requirements.

CONCLUSION

Based on a review of Council's overall financial position it may be appropriate in future to pay a dividend from the Water and Sewer Fund to the General Fund, with specific emphasis on the short term for the Sewer Fund. It is recommended that this is considered on an annual basis when completing the LTFP, annual budget and the audited financial statements going forward.

It is suggested that Council resolves that it has achieved "substantial compliance" with each of the six (6) best Practice Guideline criteria identified above, and further that Council approves Council staff to engage Council's auditors to perform the audit required for Council to receive approval to pay the dividend. This will allow Council to be in the position to pay a dividend in future years if a review of Council's overall position suggests that Council is in the position to pay a dividend.

It is not recommended at this stage that Council approves a dividend (apart from the $3 tax equivalent or efficiency dividend) for next financial year until it is confirmed whether Council is successful with the SRV and LIRS applications.

RECOMMENDATION

1. That Council requests the Director of Corporate and Community Services to arrange an independent audit as required to satisfy the NSW Office of Water requirements of paying a dividend from its water and sewer funds; and to make an application to this mentioned Office of Water as required to ensure Council complies with the requirements outlined in the Department of Water and Energy Guidelines.

2. That subject to approval from the NSW Office of Water, Council approves the payment of a $3 tax equivalent dividend per assessment from both the water and sewer funds for the 2013/14 financial year, to be paid in the 2014/15 financial year.

3. That Council resolves that it has achieved "substantial compliance" with each of the six (6) best Practice Guideline criteria being:

- ***a. Strategic Business Planning;***
- ***b. Pricing (including Developer Charges, Liquid Trade Waste Policy and Approvals);***
- ***c. Water Conservation;***
- ***d. Drought Management;***
- ***e. Performance Reporting; and,***
- ***f. Integrated Water Cycle Management (IWCM).***

4. ***That Council requests the Director of Corporate and Community Services to annually report on the ability of the water and sewer funds to pay a dividend as part of the finalisation of the financial statements for each and every financial year.***

Moved: Cr Schumacher Seconded: Cr Newman

7.05/14 RESOLUTION

1. That Council requests the Director of Corporate and Community Services to arrange an independent audit as required to satisfy the NSW Office of Water requirements of paying a dividend from its water and sewer funds; and to make an application to this mentioned Office of Water as required to ensure Council complies with the requirements outlined in the Department of Water and Energy Guidelines.
2. That subject to approval from the NSW Office of Water, Council approves the payment of a $3 tax equivalent dividend per assessment from both the water and sewer funds for the 2013/14 financial year, to be paid in the 2014/15 financial year.
3. That Council resolves that it has achieved "substantial compliance" with each of the six (6) best Practice Guideline criteria being:
   g. Strategic Business Planning;
   h. Pricing (including Developer Charges, Liquid Trade Waste Policy and Approvals);
   i. Water Conservation;
   j. Drought Management;
   k. Performance Reporting; and,
   l. Integrated Water Cycle Management (IWCM).
4. That Council requests the Director of Corporate and Community Services to annually report on the ability of the water and sewer funds to pay a dividend as part of the finalisation of the financial statements for each and every financial year.

CARRIED