

2. Background: The Road to Financial Sustainability

In recent years, Coffs Harbour City Council's Resourcing Strategy has been driven by the need to address "Council's unsustainable position." Put simply, Council cannot continue to deliver its existing services to the current standards, let alone achieve new objectives over and above these.

How did this situation arise?

As noted in the Strategy, two key factors common to most local government were the key contributors to this unsustainable position:

- a widening gap between expenditure and revenues
- deterioration of infrastructure

The "widening gap" between expenditure and revenues arises from:

- State Government 'Rate Pegging': legislation that has, over the last 30 years, meant increases in revenue have not kept pace with inflation or CPI.
- Cost Shifting: An LG NSW report has found that in recent years Council has become responsible for 25 extra services that were previously the responsibility of State or Federal Government and that these cost Coffs Harbour City Council \$4.4 million each year to deliver.
- Community Expectations: Council now delivers a wider range of services than it did in the past.

With regards to deterioration of infrastructure, Council is the "custodian and trustee" of public assets including transport, water, sewerage, stormwater drainage, buildings and recreation assets with a replacement value of around \$2 billion.

The competing financial pressures noted above have led to a gradual reduction in funding for infrastructure repair and renewal over a number of years to the point where Council cannot continue to deliver the services it currently does to the current standards.

Council's Infrastructure Investments

Water supply and sewerage infrastructure makes up approximately \$1 billion (around half) of the replacement value of Council assets. Under the NSW Local Government Act, 1993 these services are funded by specific charges and accounted for distinct from "general" activities funded by ordinary rates.

Over the past decade, Council has made substantial investments in the provision of new water and sewerage infrastructure including the construction of a \$60 million Water Treatment Plant at Karangi, a \$90 million Water Reclamation Plant at Coffs Harbour and (with our neighbours, Clarence Valley Council) the \$180 million Shannon Creek Dam and Regional Water Supply Scheme.

These investment decisions have set a foundation for the social, environmental and economic future of the City, ensuring the expected level of service can be delivered. The decisions were supported by 30 year financial plans demonstrating that Council could repay the substantial loans required via water and sewerage charges (initially requiring an increase, but then held to around CPI).

The same approach is clearly required to address the “other half” of Council’s infrastructure portfolio – transport, stormwater drainage, buildings and recreation assets together valued at around \$1 billion – which similarly underpin the future of the City, ensuring that current services can be provided into the future.

Coming to grips with Asset and Financial Management Challenges

Since 2011, Council has been focused on a broad-ranging strategy aimed at securing a sustainable financial position to enable the organisation to serve the needs of Coffs Harbour.

It is an ongoing and intensive process which has incorporated:

- An Asset Management Gap Analysis;
- Improvements in the provision of asset-related data (quantity, current condition, deterioration behaviour, current costs to maintain and renew);
- A Council-wide Service Review;
- Extensive Community Engagement (including Customer Satisfaction surveys) on service level options, targeting impacts on service users, budget implications, risks, etc.; and
- The 2012/13 review of Council’s Integrated Planning and Reporting framework.

The scale of the challenge facing Council is substantial; in 2014 it was quantified as an \$8-million cash based “financial sustainability gap”. This gap comprised a \$6.2 million shortfall in funding for infrastructure maintenance and renewal (just to maintain assets at current service levels) and a \$1.8 million underlying operating cash deficit. However, the underlying accrual accounting deficit (net of capital contributions and grants) is approximately \$12 million. The adopted 2014/2024 Resourcing Strategy identified a range of options to help close the gap:

- Productivity improvements (changing the way services are delivered)
- New revenue opportunities (e.g. commercialisation of council services)
- Reductions in current levels of service delivery
- Additional rate income
- Asset management improvements, including the review of useful lives/depreciation and review of the infrastructure backlog

Those options are reflected in two core features of the 2015-2025 Resourcing Strategy:

Transformation to Sustainability (T2S)

During 2014, Council initiated the Transformation to Sustainability (T2S) project to address Council’s underlying operating deficit through an organisational re-structure, productivity and efficiency improvements and the pursuit of new revenue opportunities. The impact of T2S has been factored into the ‘Sustainable’ model within the 2015-2025 Long Term Financial Plan. It has been estimated that following a three-year implementation phase, T2S could realise savings of more than \$3 million a year for the organisation.

Special Rate Variation

The development of the 2014/2024 Resourcing Strategy was guided by a 2013 community engagement process which demonstrated that the community was prepared to pay more for infrastructure maintenance via a Special Rate Variation (SRV) in order to maintain current levels of service. Accordingly, Council applied to the Independent Pricing and Regulatory Tribunal (IPART) for a three-year Special Rate Variation – staged over 2014/2015, 2015/2016 and 2016/2017 – to generate approximately \$6.2 million to address the funding shortfall for infrastructure maintenance and renewal. IPART acknowledged the need for the increase in

revenue but approved only the first year of the SRV, saying Council's community engagement had been deficient.

Council has subsequently renewed and expanded its community engagement - on the organisation's financial challenges and the need for additional revenue - with a view to making a new application to implement years 2 and 3 of the original SRV proposal in 2015/2016 and 2016/2017. The 2015-2015 Resourcing Strategy incorporates this two-year proposed SRV.

3. The Purpose of this Resourcing Strategy

This 2015-2025 Resourcing Strategy has been prepared to describe the means by which Council will provide the financial, workforce and asset resources required to implement the strategies established by the Community Strategic Plan that Council is responsible for.

Long Term Financial Plan

The Long Term Financial Plan (LTFP) includes two scenarios based on a "Base-Line" and a "Sustainable" financial model.

- The Base-Line Model produces financial projections (at both fund and consolidated levels) over the next ten years based on a 'business as usual' scenario. This model includes revenues generated by the approved 2014/2015 Special Rate Variation (for asset maintenance and renewal) and an associated works program. The Base-Line model is unsustainable. It includes no increase in asset renewals to cover inflation, insufficient expenditure on assets to maintain acceptable standards and a declining operation position. A continuation of this position in future years will result in an unacceptable decline in the standard and usability of infrastructure, particularly roads and recreational facilities and a reduction in general service levels provided by Council.
- The Sustainable Model produces financial projections (at both fund and consolidated levels) over the next ten years based on a progression towards a 'Sustainable' level of service for assets. This level of service requires additional funding to eliminate the annual General Fund infrastructure renewal gap as well as projected net operating result deficits (before capital grants & contributions) in future years. Council's Sustainable Model previously formed the basis of Council's 2014-2018 Delivery Program and will again be used to develop Council's 2015-2019 Delivery Program. The required additional funding to achieve a 'Sustainable' level of service delivery comes from a number of funding sources which include:
 - Savings through productivity and service delivery improvements
 - Commercialisation of Council services
 - New revenue opportunities
 - Additional rate revenue via a proposed Special Rate Variation

Workforce Management Plan

The Workforce Management Plan has been revised to reflect the recent structural changes of the organisation through the Transformation to Sustainability (T2S) program. The Organisational Development Group (formerly known as Human resources and Organisation Development Division), is currently also being remodelled. The new Organisational Development strategy will include a new workforce development plan with greater focus on talent management and succession planning. Hence this workforce management plan will be revised at a later stage.

Asset Management Strategy

Council's Asset Management Policy states Council's commitment to:

- Delivering community priorities for asset-related services within Council's limited funds; and
- Minimising the life-cycle cost to build, operate, maintain and renew these assets.

It notes that Council will prepare, implement and review Asset Management Plans (AMPs) defining how Council plans for, accounts for, and manages the public assets for which it is custodian and trustee.

In line with the Policy, the Asset Management Strategy sets out:

- Where we are now;
- Where we want to be, i.e. to achieve the objectives of the Policy; and
- How we will get there

The Strategy is focused on the corporate level: i.e., Council's capacity and capability to achieve Policy objectives across all asset classes. Improvement plans relevant to particular asset classes are included in each AMP.

It should be noted that the Coffs Harbour City Council 2015/2025 Resourcing Strategy continues the implementation of a number of initiatives related to the Mid North Coast Regional Organisation of Councils (MIDROC) Asset Management Improvement Project as well as the NSW Government's *Fit for the Future* asset management benchmarking structure.