

PROMOTING BETTER PRACTICE PROGRAM

REVIEW REPORT

HAY SHIRE COUNCIL

FEBRUARY 2015



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Local Government

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PROMOTING BETTER PRACTICE

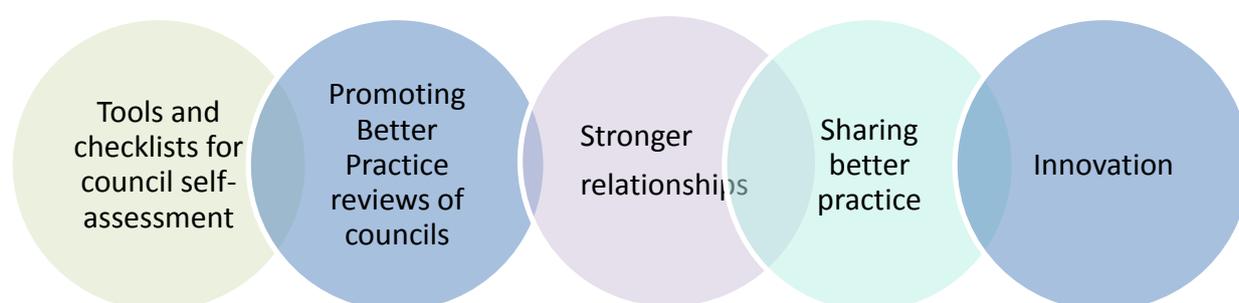
The Program

By promoting better practice, the Office of Local Government aims to assist in strengthening the local government sector by assessing performance and promoting continuous improvement.

The Program includes:

- working with councils to identify, share and promote better practice in key areas
- working cooperatively with councils to promote strong relationships within the sector.
- providing councils with feedback on areas requiring improvement or further development, and assisting them in developing solutions.
- identifying trends and issues arising from council reviews to support policy and legislative changes for the local government sector.
- encouraging and facilitating innovation within the NSW local government sector.

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Promoting Better Practice reviews

Reviews of individual councils are designed to act as a 'health check' to examine the extent to which there are appropriate strategies, policies, systems and procedures in place at the strategic and operational levels.

The reviews are conducted by a team from the Office of Local Government in collaboration with councils. During a visit to the council, key strategic areas are examined together. A key outcome is a report which reflects the findings of the review but most importantly contains a Review Action Plan which aims to facilitate better practice and increase the council's overall capacity to deliver appropriate services to its community.

Key strategic areas considered



Civic leadership and organisational governance examines how the elected body and the council organisation provide leadership within the local community, and considers the means by which a council is directed and controlled to ensure effective decision making and ensure the organisation is meeting its legal and ethical obligations. The council's regulatory and enforcement framework is also considered.

Strategic community planning focusses on the council's role in planning for the future in collaboration with its community. It considers how well the council engages its community in planning, and how well the Community Strategic Plan; Delivery Program, and Operational Plan capture the community's aspirations and goals. It also examines how strategic land-use planning matters are integrated into the council's implementation of the Integrated Planning and Reporting framework.

Resourcing the plans to achieve financial sustainability considers the current and future financial capacity of a council to maintain its operations and deliver appropriate services to the community. The council's financial and asset management position and practices are considered. The quality and utility of the council's long-term financial planning, asset management, and workforce planning is a key part of this assessment.

Delivering services to the community relates primarily to the extent to which the council translates the strategies and initiatives within its Community Strategic Plan, Delivery Program and Operational Plan into action. This includes how the council informs the community of its performance in delivering services and facilities according to plan, and how

it measures customer satisfaction or receives community feedback to inform ongoing planning.

The review process



EXECUTIVE SUMMARY

The Council appears to be a well-run organisation with motivated staff and a positive organisational culture.

The Council has done a significant amount of work with the Integrated Planning and Reporting framework and at the time of this review met its legislative requirements. The Council is to be commended for preparing easy to read and informative plans and reports with the limited resources available to it.

The financial challenge facing the Council is significant and ongoing. The Council's financial position and liquidity are sound for the life of its current Delivery Program. However, its long-term financial position is of concern. The Council reported an infrastructure backlog of \$13.3m in 2012/13, which is 20.3% of its infrastructure asset value. The vast majority of the infrastructure backlog relates to sewage treatment works which will require major expenditure in the near future.

The Council has acknowledged that it will need to address a number of ongoing long term challenges. Without an improvement in its operating result and an increased capacity to provide funding for its asset renewal and capital expenditure, the Council's future financial position and sustainability will be under increasing pressure.

Council have implemented several initiatives in order to reduce costs including resource sharing with other councils including arrangements with Griffith City Council (food inspections), Carrathool Shire Council (cotton gin inspections), Deniliquin Council (street sweeping) and Holroyd City Council (systems and policy mentoring).

Council's political and management systems are in need of some adjustment to ensure they are self-supporting and capable of sustaining organisational longevity. Council is developing systems resilience in partnership with other councils in the region to ensure processes are matched to organisational need and community outcomes.

ABOUT THE COUNCIL

The Hay Shire local government area covers 11,348km and is located in the western part of the Riverina area on largely flat terrain including saltbush plains with river red gum and blackbox corridors along the Murrumbidgee River. The Shire is one of Australia's leading wool and sheep meat producing areas. It also produces beef, irrigated vegetables and fruit, rice, wheat and cotton.

The main regional centre is Hay (estimated population 1800) which is situated at the intersection of the Sturt, Mid-Western and Cobb Highways. The other main towns in the Shire are Maude (estimated population 30) and Booligal (estimated population 25). Hay is situated about halfway between Sydney and Adelaide and just over 400 kilometres from Melbourne.

NSW Planning & Environment estimate that the population at the time of the report was around 3,000 people; however they predict that this number will drop to 2,150 by 2031.

The following two pages provide key statistics on the Hay Shire:

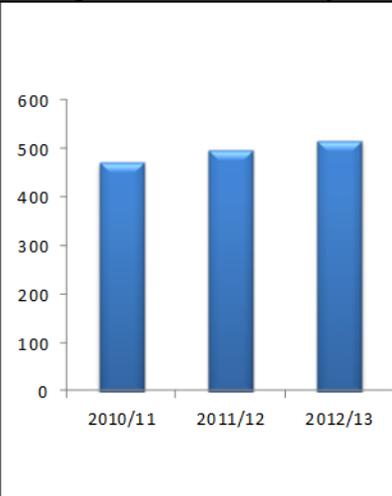
Hay Shire Council



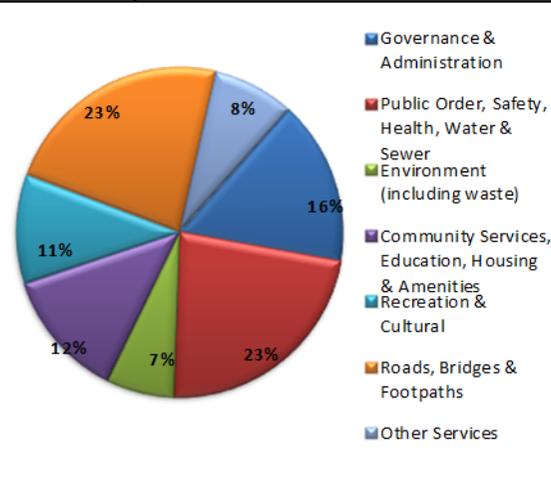
Hay Shire has an area of approximately 11,328.5 km² with a population of 3,002. Located in the Riverina area on largely flat terrain including saltbush plains with river red gum and black box corridors along river. The Shire is one of Australia's leading wool and sheep meat producing areas. It also produces beef, irrigated vegetables and fruit, rice and cotton.

Your Local Population	LGA	Group Avg	Your Council	LGA	Group Avg
Five year population change (%)	-11.5	-0.9	Councillors (No.)	8	8
Population aged 19 or less (%)	26.8	26.0	Population per Councillor (No.)	375	413
Population aged between 20 & 59 (%)	47.5	48.3	Equivalent Full Time Staff (EFT) (No.)	53	70
Population aged above 60 (%)	25.7	25.7	2012/13 Revenue (\$'000)	11,337	15,538
Aboriginal & Torres Strait Islanders (%)	5.5	9.9	2012/13 Expenses (\$'000)	10,381	14,307
Language Spoken Other than English (%)	3.0	2.3	Residential Pensioner Rebates (%)	22	24
Socio-Economic Index Rank (1 low, 152 high)	21	n/a	Population Density (residents per km ²)	0.26	0.72
Your Local Economy	LGA	Group Avg	Your Public Facilities	LGA	Group Avg
SALM Unemployment Rate (%)	3.0	5.0	Public Swimming Pool Complexes (incl rock pools) (No.)	1	2
Avg Taxable Income (\$)	32,664	35,220	Public Halls (No.)	4	5
Avg Household Family Size (No.)	3.0	3.0	Public Libraries (No.)	1	1
Largest Industry Employer	Agriculture, forestry & fishing		Open Public Space (ha)	129	79
Value of DAs determined (\$'000)	282	5,873	Total Road Length (km)	941.1	1325.9
Active Businesses in LGA (No.)	377	457	Access to Internet at Home (%)	58.5	58.8

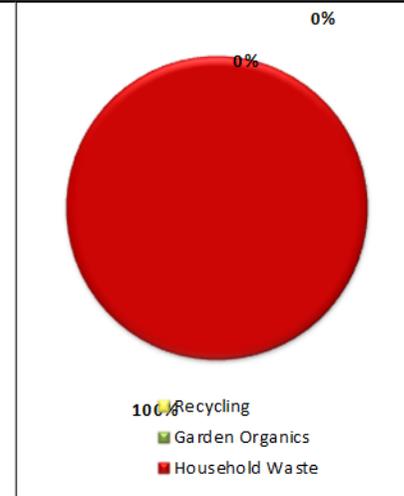
Average Residential Ordinary Rates



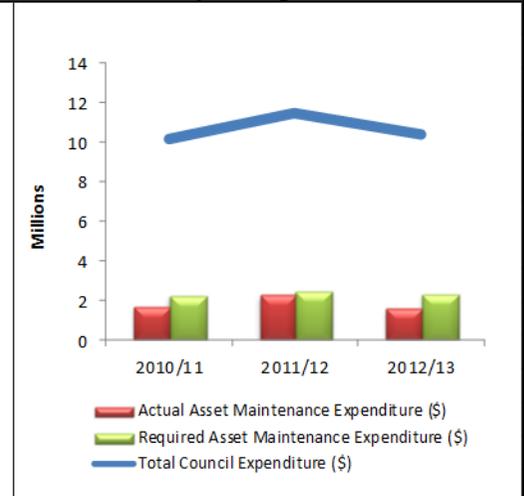
Expenditure on Services



Council's Waste Services



Council's Spending on Assets



In 2013 TCorp assessed your Council's current Financial Sustainability Rating as Moderate with a Negative outlook.

Contacting Council	Your Council's Finances	LGA	Group Avg	Your Council's Services	LGA	Group Avg	
134 Lachlan Street Hay NSW 2711 Postal Address: PO Box 141, Hay NSW 2711 Phone: 02 6993 1003 Fax: 02 6993 1288 Email: mail@hay.nsw.gov.au Web: www.hay.nsw.gov.au	Avg Ordinary Residential Rate (\$)	517.53	357.70	Governance & Administration Expenditure per capita (\$)	536.98	752.29	
	Avg Ordinary Business Rate (\$)	1,341.23	693.86	Environmental Expenditure (including waste) per capita	222.85	237.56	
	Avg Ordinary Farmland Rate (\$)	2,643.22	2,408.48	Water & Sewer Services Expenditure per capita (\$)	608.59	486.17	
	Avg Ordinary Mining Rate (\$)	n/a	29,660.61	Community Services, Education, Housing, Amenities Expenditure per capita (\$)	442.04	362.69	
	Total Land Value / Total Rate Revenue (\$)	71.87	185.51	Recreational & Culture Expenditure per capita (\$) *	376.75	301.24	
	Typical Residential Water and Sewer Bill (including usage) (\$)	1,462	1,094	Public Order, Safety & Health Expenditure per capita (\$)	186.54	164.77	
	Avg Domestic Waste Charge (\$)	182.93	234.55	Other Services Expenditure per capita (\$)	282.81	863.71	
	Own Source Revenue (%) (TCorp Benchmark 60%)	42	44	Library Services Expenditure per capita (\$)	73.62	52.38	
	Grants & Contributions Revenue (%)	52	49	Library Circulation per capita (Items)	8	5	
	Operating Performance Ratio (%) (TCorp Benchmark >-4.0%)	-8.9	-7.6	Domestic waste not going to land fill (%)	10	25	
	Unrestricted Current Ratio	3.3	4.9	Development Applications (mean gross days)	21	35	
	Outstanding Rates & Annual Charges (%)	18.2	10.5	Development Applications determined (No.)	20	37	
	Debt Service Cover Ratio (TCorp Benchmark >2.0)	7.8	43.3	Companion Animals microchipped (No.)	1,515	1,429	
	Cash Expense Cover Ratio (Mths) (TCorp Benchmark > 3 mths)	10.1	8.9	Companion Animals microchipped and registered (%)	42	50	
Demographics of Population of LGA							
Your Council's Community Leadership			Your Council's Assets				
Development Applications determined by Councillors (%)			5	9	Roads, Bridges and Footpath expenditure per capita (\$)	801.47	1,375.16
Audited Financial Reports submitted by due date (Y/N)			Y	n/a	Building & Infrastructure Renewal Ratio (%)	121.9	101.4
Code of Conduct Complaints (No.)			0	0	Infrastructure Backlog Ratio (%) (TCorp Benchmark <20%)	20.2	7.5
Complaints investigated requiring action (No.)			0	0	Road Length per '000 capita (metre)	313.5	433.7
Cost of dealing with Code of Conduct Complaints (\$)			0	1,074	Asset Maintenance Ratio (TCorp Benchmark >1.0)	0.7	0.9
Population per EFT Staff (No.)			57	50	Comparative Information on NSW Local Government		
See Appendix 1 for definitions, calculations & benchmarks See Appendix 3 for Council Groups			Measuring Local Government Performance 2012-13  				

CHALLENGES FACING THE COUNCIL

The council is facing a drop in population numbers, as are most rural areas in NSW. The population at the time of the report was estimated to be around 3,000 people, however NSW Planning & Environment is predicting that this number will drop to 2,150 by 2031.

The Council attribute the recent drop in numbers to a prolonged drought and the mining boom, which is enticing its young away. The Council has predicted an increase in the production of cotton and rice in the area and an increase in tourism. If this is achieved, the Council believes the number of residents will remain around the 3,000 mark.

The Council highlighted that they are a small council and expressed frustration in dealing with State Government agencies. The Council says it has to deal with at least 23 State Government agencies and 7 Federal Government Agencies. Council asserts that each Government agency requires the Council to report separately to them on different matters of interest to each agency. Council believes this has a significant impact on organisational resources and performance.

The Council says it is continually forced to take on the delivery of essential local services due to the withdrawal of services previously provided by other levels of Government and in most cases without being given any funding. For example, the retirement of the last local medical practitioner saw the community demand that Council take action to ensure the provision of medical services. The Council decided to invest \$1m of its own funds (medical centre, three houses and three cars) to entice doctors to Hay.

The Council contends there should be a more cooperative approach by the various State Government authorities towards facilitating planning approvals for much needed major developments. The Council states that the stringent approach to such major developments in the city areas should be relaxed and be relative to the amenity of the local area. It is definitely a case of 'one size does not fit all'.

The Council is concerned with the growth of non-rateable rural properties in its area due to the establishment of National Parks. The recent purchase by the State

Government of these large, once productive tracts of rural land has resulted in Council foregoing some \$87,000 per year in rate income. This represents a 4.5% loss in general rates revenue. Further, Council is sensitive to its financial reliance on grant funding and is concerned about the impact of any negative changes to income streams, especially grants.

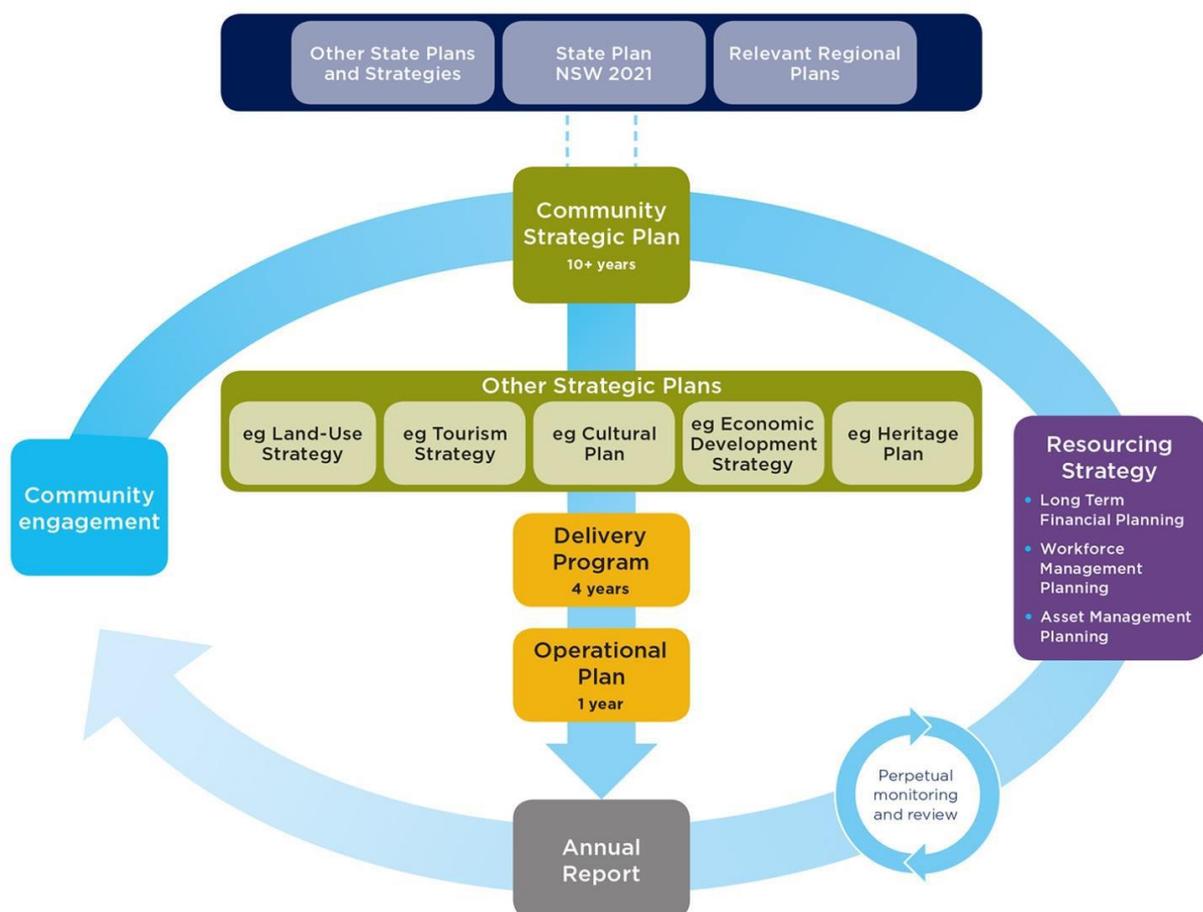
The Council has difficulty attracting and retaining experienced staff due to the relative remoteness of the local government area and competition from other industries and sectors.

STRATEGIC DIRECTION AND PLANNING

A key component of a Council's strategic planning is its application of the Integrated Planning and Reporting framework which was introduced to improve local councils' long-term community planning and asset management, as well as to streamline reporting to the community.

The framework aims to improve the sustainability of local communities by encouraging councils, residents and State agencies to work together on long-term plans and strategies. The Community Strategic Plan is supported by a four-year Delivery Program, annual Operational Plan and a Resourcing Strategy that includes long-term financial planning, asset management planning and workforce management planning.

Diagram 1: The Integrated Planning and Reporting Framework



Interviews were conducted with the Mayor, General Manager and the Executive team during the on-site review. The purpose of these interviews was to determine characteristics of strategic capacity, the level of understanding of the IP&R process and understand the priorities of the organisation.

Hay Shire Council has done a significant amount of Integrated Planning and Reporting framework work with limited resources. All staff and councillors were involved in the community engagement process which highlighted that the community's main concerns were health, transport and education. Apart from clean, safe local amenities and water supplies, it is worth noting that the main community concerns are not core deliverables of Council. That said, Council will play a role in advocating for State and Federal decision makers to advance these issues for the community.

While the Community Strategic Plan, Delivery Program and Operational Plans are quite good, there are some areas where council could pursue improvements. Council could include meaningful success measures in the Community Strategic Plan and a set of comprehensive key performance indicators across the Delivery Program and Operational Plan. Council may wish to consider the work of Parramatta City Council and Fairfield City Councils in this regard.

The Resourcing Strategy is required to include the asset management plan, workforce strategy and long term financial plan.

Council's workforce plan provides limited detail about issues impacting on the workforce. The plan could benefit from more action information addressing issues such as staff training, attracting and retaining staff, corporate knowledge retention and attracting quality people. Council may wish to consider the work of Albury City Council on its workforce management strategy.

Council advised that it had yet to include the asset costs associated with its sewage treatment plant works in its planning processes. The Long-Term Financial Plan and the Asset Management Plan need to include the full amount of asset maintenance and asset replacement costs in order to reflect the true financial position of the Council.

The Council has taken a cross-organisational approach to implementation of the integrated planning and reporting framework encouraging ownership of the planning process, in particular budgeting management. Managers appear to be aware of their allocated budget and they are encouraged to look at ways of meeting all challenges.

Overall, the individual plans are informative and easy to read. For a Council of its size, council has done valuable work in the preparation of its IP&R documents and should be commended.

The Council's response – Strategic direction and planning

The Council has taken the approach that the Integrated Planning and Reporting requirements and strategic planning process are a 'work in progress' and that, over time, the plans will be refined and improved so that they become a more usable management tool.

At present the plans reflect the size and resources of the Council and are a very useful base on which to embark upon an improvement program.

As advised in this report, the Council will refer to other councils' plans and processes as a key resource in developing and improving its strategic planning and reporting framework.

FINANCIAL SUSTAINABILITY

This section examines the Council's overall financial position and how it is managing its finances and assets in order to deliver the outcomes of its long-term Community Strategic Plan.

The T-Corp Financial Assessment, Sustainability and Benchmarking Report quotes sustainability as "a local government will be financially sustainable over the long-term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community".

In March 2013 T-Corp released its financial assessment for Hay Shire Council based on its review of the Council's most recent four years of consolidated financial results (the 2011/2012 financial statements) and a detailed review of Council's 10 year Long-Term Financial Plan. The key focus areas were:

- The financial capacity of the Council.
- The long-term sustainability of the Council.
- The financial performance of the Council in comparison to a range of similar councils and measured against prudent benchmarks.

T-Corp reported that it believed Council was in a moderate financial position and considered that Council's outlook was negative.

The review team has now reviewed the 2012/13 financial results and, based on the information provided to the review team, it appears that the Council is not financially sustainable in the long-term. There are a number of factors that support this conclusion:

- The Council has incurred deficits before capital grants and contributions in the last five financial years (expenditure greater than revenue). The cumulative deficit is \$5.7M.

- The Long-Term Financial Plan for the General Fund is predicting significant operating deficits before capital grants and contributions for the next 10 years - ranging from \$683K in 2013/14 to \$1.426m in 2022/23.
- The Council has not budgeted for the full amount of its estimated asset maintenance in its Long-Term Financial Plan.
- The Council has not included the full amount of asset replacement costs in its Long-Term Financial Plan.

Added to these concerns is the possible reduction in rates income and Council's heavy reliance on grants both operating and capital (43% of total income in 2012/13). The Council believes that there is little scope to increase its income and it is continually looking to reduce expenditure. Council is concerned there is little chance of improving financial performance in the foreseeable future.

That said, there is some work to do around council's asset management planning. Council advised that it is reviewing its asset management plans including community land management. Council will be seeking to divest itself of liabilities and reduce its holdings to reduce its costs. Council is also planning a review of asset valuation, life span and condition assessments that should lead to a reduction in its depreciation and thereby, expenditure. Council has also indicated that it is not replacing some assets and this will improve its financial position.

Despite this outlook, based on interviews held with the Mayor and staff, the Council demonstrated that its managers were fully aware of the importance of not exceeding their budgets, and were encouraged to look for ways of reducing their costs. The Council will need to continue to review its services that it provides, and continue to identify ways to reduce costs.

The Council's response – Financial sustainability

Hay Shire Council is sustainable and has proven itself to be innovative and adaptive to changing financial and service level requirements. The Council continually

monitors its finances and has, in the past where required, responded successfully to competing demands by changing service and risk levels.

The Council is also in the process of reviewing its asset management plans and strategies and believes that its backlog is at a very manageable level.

MANAGEMENT AND SYSTEM RELATIONSHIPS

Good corporate governance means having effective and efficient structures, systems, policies and processes in place that support decision making to ensure Council achieves its strategic and operational objectives thereby promoting community confidence in Council.

Strong, effective governance is critical to:

- achieving goals and aspirations
- enhancing organisational performance
- managing risks identifying and addressing emerging risks and opportunities.
- increasing the confidence of the community in the organisation
- ensuring that the council is meeting its statutory and ethical obligations
- assisting in the prevention and detection of dishonest or unethical behaviour.
- service delivery and the efficient use of Council resources.

Council's management and regulatory systems and processes appear adequate for its current circumstances. Discussions with the management team indicated they understood their system requirements and were taking action to address identified gaps in a resource constrained environment. For example, staff are engaging with Holroyd City Council to improve a range of systems. Council's willingness to engage with other organisations to bring improvement to their operations is to be commended.

The Council's governance framework is in need of some adjustment to ensure that it is capable of continuous improvement. Council indicates that it has yet to establish a risk management framework, fraud control plan, business continuity plan and an internal audit program. These systems are integral to a continuous improvement and systems monitoring framework. There also appears to be room for improvement in procurement management systems. Such a framework will allow council to efficiently and effectively deliver outcomes to the community.

Council has indicated that it is currently capitalising on its partnership with Holroyd Council to develop appropriate systems. The Office of Local Government has identified the work of Willoughby City Council in the area of internal audit, business continuity and the work of Willoughby City Council in the area of internal audit, business community and enterprise risk management as examples of better practice. Council may wish to examine these systems as it develops its own practices.

The further development and implementation of continuous improvement and continuity systems will allow council to focus further attention on service delivery choices as outlined in its delivery program.

A review of the meeting minutes and systems applicable to the political governance of council indicates that councillors are adequately serviced by the organisation. Council meetings appear efficient and effective; however regrettably, the opportunity for the review team to meet with councillors wasn't possible during the visit.

It is apparent that councillors could benefit from a better understanding of the integrated planning and reporting framework. The Quarterly Budget Review Statement (QBRs) that is submitted to the governing body is one way in which councillors should be encouraged to engage further in this discussion. Council's QBRs includes a detailed set of financial accounts, however would benefit from the inclusion of an overview of the Council's financial performance measured against key performance indicators as recorded in their Long Term Financial Plan, Delivery Program and Operational Plan.

Another way to engage councillors with integrated planning and reporting is to link council meeting agenda items to their respective objectives in councils Delivery Program and Resourcing Strategy in addition to the communities' expectations outlined in the Community Strategic Plan outcomes. The linkages serve to focus the councillors' attention to those items that are planned and budgeted, and highlight those items that are unplanned and unbudgeted, and therefore may affect the agreed community outcomes.

Council's constrained resource environment has had a significant impact on the delivery of services to the community. It is noted that Council is challenged by the

range of regulatory activities it must undertake for its community, such as development and planning, companion animals management, environmental protection and swimming pool inspections. Particularly given the distances involved and the available resources, staff are confident that Council provides a level of regulatory service that meet the needs of its community.

Overall, the linkages between council's operational policies and systems and its management and decision making processes service the needs of the community.

The Council's response - Governance

The Council is aware that it needs to take a more whole-of-business approach to risk management and has commenced a range of enterprise risk management initiatives, including the preparation of a business continuity plan, and has prepared risk management action plans for some of its major risks.

It is acknowledged that there needs to be an improvement in linkages between financial performance and key performance indicators. Again, this will be a staged approach.

While the Council does not have an internal audit program it does have a strong internal audit control mechanism in place which has received praise from our external auditor. It is considered that the current controls are adequate for the size of the organisation.

NEXT STEPS

Hay Shire Council does face some significant challenges particularly around financial sustainability in a tightening economic environment. The challenges facing the council are not exclusive to Hay Shire and many of them are discussed in the Independent Local Government Review Panel final report. Overall, Hay Shire Council is aware of the issues and challenges confronting it and is taking action to address those matters within its sphere of control and advocate on behalf of the community on the priorities identified in the Community Strategic Plan.

The attached action plan lists those items the review team would like council to review and improve.

ACTION PLAN

The following Action Plan is to be used to guide the implementation and monitoring of the self-assessment check list findings and the improvement areas identified in the report prepared in cooperation with the Office of Local Government.

<i>ACTION AREA</i>	<i>PRIORITY</i>	<i>ACTION PROPOSED</i>	<i>TIME FRAME</i>	<i>RESPONSIBILITY</i>	<i>PROGRESS REPORT</i>
1. The Community Strategic Plan and Delivery Program should include a set of meaningful and measurable performance indicators.	<i>Low</i>	Develop performance indicators as part of continuous improvement program.	2 Years	General Manager	Annually with reports
2. The Long Term Financial Plan and Delivery Program should be updated once the asset management plans are completed.	<i>High</i>	Review Asset Management Plans as part of Schedule 7 review an asset needs.	1 Year	General Manager	Annually with reports
3. The Council should include the full cost of asset maintenance and replacement in its long-term financial plan.	<i>High</i>	Include in Asset Management review.	1 Year	General Manager	Annually with reports

ACTION AREA	PRIORITY	ACTION PROPOSED	TIME FRAME	RESPONSIBILITY	PROGRESS REPORT
4. The Council should continue to refine its Workforce Management Plan to include staff retention and attraction issues.	<i>Low</i>	Continue to refine and develop Plan as part of Integrated Planning and Reporting continuous improvement program.	2 Year	General Manager	Annually with reports
5. Council should prepare its Quarterly Budget Review Statements (QBRs) in line with the minimum requirements in the OLG QBRs guidelines.	<i>High</i>	Develop linkages between financial performance and performance indicators.	2 Year	General Manager	Annually
6. Council should prepare an asset rationalisation plan as part of its review of its asset management plans.	<i>High</i>	Include in Asset Management review.	1 Year	General Manager	Annually
7. Council should develop plans of management for its community land.	<i>Low</i>	Develop Plans.	1 Year	General Manager	Annually
8. Council should continually review its costs and services it provides including further possible shared service arrangements with its neighbours.	<i>Medium</i>	Continue to assess opportunities for shared service arrangements.	1 Year	General Manager	Annually

ACTION AREA	PRIORITY	ACTION PROPOSED	TIME FRAME	RESPONSIBILITY	PROGRESS REPORT
9. Council should establish a risk management framework, fraud control plan, a business continuity plan and an internal audit program.	<i>Low</i>	Review risk management framework, develop BCP in-house and include audit controls as part of continuous improvement program.	1 Year	General Manager	Annually
10. Council should review and improve its procurement management system.	<i>Medium</i>	Continue with current training and improvement program.	Ongoing	Director of Corporate Services	-
11. Council should consider linking its reports to council to the outcomes in its Delivery Program and Operational Plan	<i>Medium</i>	Further develop Council reporting template.	1 Year	Director of Corporate Services	Annually