

resourcing strategy 2017-2027





acknowledgement

Blue Mountains City Council acknowledges that the City of Blue Mountains is located within the Country of the Darug and Gundungurra peoples.

Blue Mountains City Council recognises the unique position of the Darug and Gundungurra peoples in the history and culture of the Blue Mountains. It is acknowledged that Aboriginal people in the Blue Mountains have strong, unbroken and on-going connections to their Country, cultures, heritage and history. The Darug and Gundungurra peoples are recognised as the Traditional Owners of the land we now call the Blue Mountains and it is important that this unique status is incorporated into all Council business, community protocols, official ceremonies and events.

Blue Mountains Council has developed a shared vision with the Blue Mountains City Council Aboriginal Advisory Committee to achieve on-going positive change for the local Aboriginal community.

This vision underpins the partnership between the Aboriginal community of the Blue Mountains and Blue Mountains City Council in a spirit of acknowledging our past, sharing our future.

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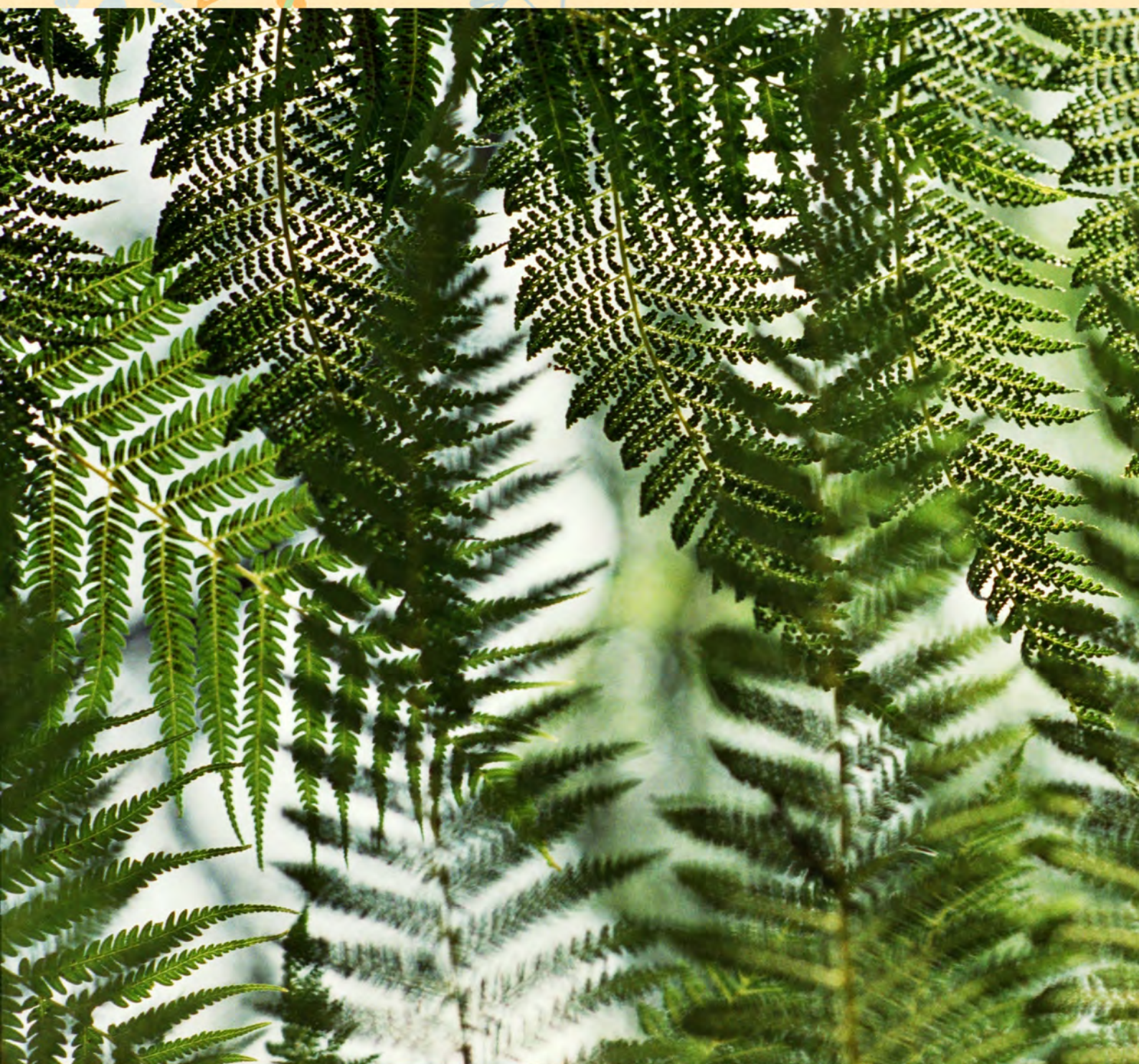
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List of Acronyms

| | |
|-------|--|
| ABS | Australian Bureau of Statistics |
| AMIP | Asset Management Improvement Program |
| AMP | Asset Management Policy |
| AMPs | Asset Management Plans |
| AMS | Asset Management Strategy |
| BMCC | Blue Mountains City Council |
| CSP | Community Strategic Plan |
| ELT | Executive Leadership Team |
| FAG | Financial Assistance Grant (from Australian Government) |
| FFtF | Fit for the Future |
| GRSG | Governance and Risk Steering Group |
| IPART | Independent Pricing and Regulatory Tribunal |
| IP&R | Integrated Planning & Reporting |
| IRSD | Index of Relative Socio-economic Disadvantage (one of the SEIFA indices) |
| LGA | Local Government Area |
| LGPMC | Local Government and Planning Ministers' Council |
| LGSA | Local Government and Shires Association |
| LOS | Levels of Service |
| LTFP | Long-Term Financial Plan |
| NAVF | Natural Area Visitor Facilities |
| NBN | National Broadband Network |
| OLG | Office of Local Government |
| RFS | Rural Fire Service |
| RMS | Roads and Maritime Service |
| SEIFA | Socio-economic Indexes for Areas (prepared by the ABS) |
| SES | State Emergency Service |
| SGC | Superannuation Guarantee Charge |
| SS7 | Special Schedule 7 |
| SV | Special Variation (to Rates) |
| TCorp | Treasury Corporation (NSW Government) |
| WHS | Work Health and Safety |
| WMF | Waste Management Facility |
| WMS | Workforce Management Strategy |



introduction



1.1 about this document

This *Resourcing Strategy* outlines the Council's resourcing commitment over the next 10 years to implementing the objectives and strategies within the Blue Mountains Community Strategic Plan 2035 (CSP 2035). The CSP 2035 identifies the priorities and aspirations of the community for the future of the Local Government Area. Importantly, these priorities will not be achieved without sufficient resources – money, people and assets.

Through the *Resourcing Strategy*, Council sets out its delivery and financial capability over the next 10 years. It outlines the Council's *Six Strategies for Financial Sustainability* and its progress and targets for remaining *Fit for the Future*. It guides and informs Council's decision-making going forward, so that it can best meet the needs of the community within available resources and sets out the available resources supporting implementation of the Council's four year Delivery Program and annual Operational Plans.



The Resourcing Strategy 2017-2027 is comprised of an introductory section followed by three integrated components: the Long Term Financial Plan (LTFP); the Asset Management Strategy (AMS); and the Workforce Management Strategy (WMS).

The **Long Term Financial Plan** is central to the integration of the resourcing plans as it provides 10-year projected revenues that inform the financial extent to which infrastructure projects, workforce resources and operational expenditure can be provided.



The **Asset Management Strategy** includes the overarching council adopted *Asset Management Policy*. It sets the broad framework for undertaking asset management over the next 10 years in a structured and coordinated way, outlines why and how asset management will be undertaken and provides key principles that underpin asset management at Blue Mountains City Council (BMCC).



The **Workforce Management Strategy** takes a long-term view determining the workforce needs over a 10-year horizon. This is to ensure Council's workforce is structured to respond to and has the capacity to deliver on the commitments in the *Community Strategic Plan 2035* and *Delivery Program 2017-2021*.

The Council's Resourcing Strategy forms a key element within the legislatively required NSW Integrated Planning & Reporting Framework. This Framework sets out how Councils should draw their plans together in a holistic way to plan for the future. This is illustrated in *Figure 1-1* below.

INTEGRATED PLANNING & REPORTING FRAMEWORK

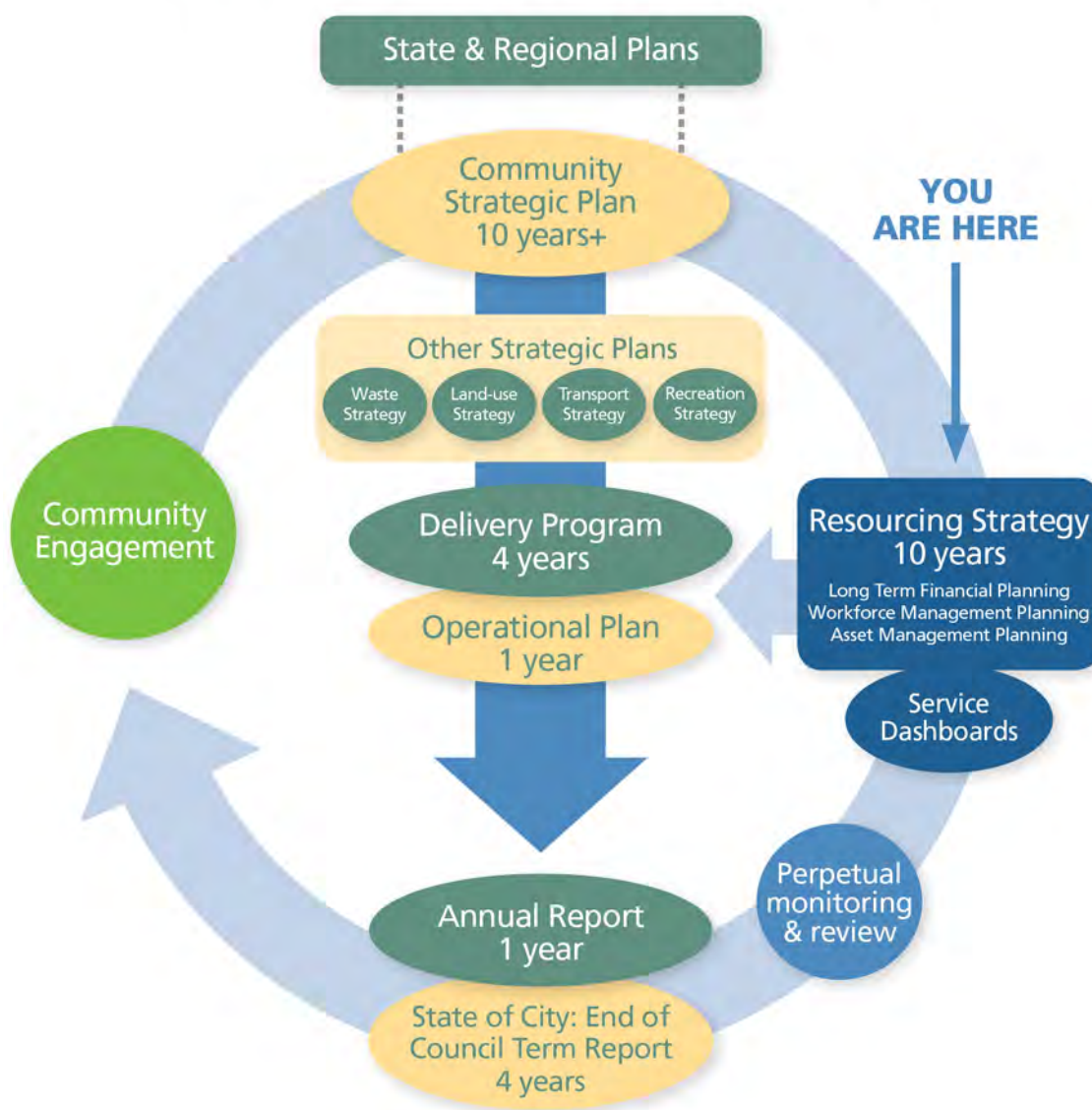


Figure 1.1 - Integrated Planning and Reporting Framework

1.2 strategic outlook

Over the past four years the financial position of the City and the Council has improved. This is a direct result of the Council taking leadership to live within its means by implementing its *Six Strategies for Financial Sustainability*, including: Avoid Shocks, Balance the Budget, Manage Borrowings Responsibly, Increase Income, Review and Adjust Services in Consultation with the Community, Increase Advocacy and Partnerships. The commitment to simultaneously implementing each of these strategies resulted in the Council being assessed as “Fit for the Future” in 2015 by the Independent Pricing and Regulatory Tribunal (IPART) and the NSW State Government.

Going forward the Council continues to have financial challenges in managing over \$1.1B worth of ageing built infrastructure as well as meeting the rapidly changing needs of the City, including an ageing population, very little projected population growth, but rapidly increasing visitor numbers. The Council's services and infrastructure also need to be adaptable to future changes and to developments in technology.

Council must continue to live within its means while managing costs rising faster than income. This means that levels of service provided need to balance to the available revenue. Continuing to engage the community on the best ways of achieving affordable and acceptable levels of service will be an important part of managing the remaining gap in required funding to renew and maintain the City's ageing built infrastructure.

This *Resourcing Strategy 2017-2027* sets out a 10 year strategy, with key actions and performance targets to ensure that the financial position of the City and the Council continues to improve. It puts forward the necessary strategies and actions to ensure the Council not only achieves required NSW State Government Fit for the Future targets by 2019-2020, but is also positioned to be financially sustainable into the long term with affordable and acceptable levels of service agreed with community.

Council will continue to develop and implement the *Six Strategies for Financial Sustainability*, which have been updated, including further engaging with community on affordable and acceptable levels of service to ensure we are delivering on community priorities while living within our means. Other key components of this Resourcing Strategy includes implementing the Council's Asset Management Improvement Plan and Workforce Management Strategy.

Council Strategic Priorities

In response to the *Six Strategies for Financial Sustainability* and the Fit for the Future Action Plan, the Council has identified a number of key commitments for the next four years. These include:

- Priority 1:** Improve our approach to asset management to support delivery of the Council's commitments to Fit for the Future targets, the State Government's expectations for councils and support value for money services to the community.
- Priority 2:** Deliver the Council's Fit for the Future targets – maintaining the Best Value Decision Making Framework to maximise outcomes for the community from Special Rate Variation income.
- Priority 3:** Complete a strategic review of services to inform future decision making and priorities.
- Priority 4:** Increase focus and priority on Business Improvement and Innovation to improve effectiveness and efficiency.
- Priority 5:** Position the Council to be proactive in communicating and engaging with the community on the business of the Council.
- Priority 6:** Develop a strategic approach to tourism and the visitor economy that also addresses the increased visitation, local community and funding options.

Long Term Financial Strategy

The Council's Long Term Financial Strategy is to strengthen financial sustainability and balance levels of service to available revenue while managing risks. In doing this the strategy aims within available funding to meet future changing service and infrastructure needs of the City.

The strategy plans for an improvement in financial capacity through continuing to implement the *Six Strategies for Financial Sustainability*. These strategies have been updated to incorporate the Council's Fit for the Future Action Plan and performance measures.

Over the next four years the key financial planning focus will be on:

- Determining affordable and acceptable levels of service in consultation with the community through ongoing review of services and service levels required in the City;
- Funding the optimal lifecycle costs of the built assets that are supporting the delivery of required services and the achievement of determined levels of affordable service provision;
- Ensuring best value spending of available funding, including additional income obtained from the community endorsed Special Variation to rates 2015 (SV2);
- Managing costs rising faster than income by reducing costs, increasing income and achieving efficiencies through implementation of the Council's Business Improvement Program and other initiatives required;
- Planning for and developing sustainable services and infrastructure to meet the changing needs of the community; and
- Managing the impact of growing visitation and ensuring visitors are funding these increasing costs through implementing a user pays strategy.

The Council's *Long Term Financial Plan (LTFP)* has forecast the achievement of an Operating Surplus in every financial year over the next 10 years, with the size of the surplus reaching \$2.8M in 2019-2020 and reducing to \$456,000 by 2025-2026. These surplus projections will only be achieved if the LTFP is implemented, including all six financial sustainability strategies, and service levels are rebalanced to available revenue.

To achieve Operating Surpluses, the LTFP assumes there will be reductions in expenditure as well as increases in income to meet the ongoing challenge of Council's costs rising faster than income. The plan also assumes funding of identified optimal lifecycle costs of required built assets.

It is assumed that income will be increased through a visitor user pays strategy to fund services and assets that are being used by increasing numbers of visitors.

It is also assumed that there will be substantial reductions in expenditure in a number of areas:

- Depreciation will be reviewed and projections aligned to asset useful lives determined by agreed and affordable levels of service;
- Operational cost savings will be achieved through the Business Improvement Program and other initiatives;
- Allocation of additional special rate variation funds will reduce ongoing costs through effective best value targeting of funding; and
- Debt repayments will be reduced through no new borrowings – noting that in future years Council will rebuild its capacity to be able borrow if required when it is in a better position to afford additional principle and interest repayments.

Over the next five to ten years Council is working towards reducing the asset funding shortfall by directing available funds, including projected increased funds from a visitor user pay strategy, to asset renewal where needed. The funds available over the 10 years for capital expenditure will generally be directed to reducing the infrastructure renewal backlog and fully funding renewal requirements of assets that have been assessed as being required and essential to support service delivery.

However, it is also important that some funding is available to meet the changing needs of the community and the City going forward. Much of the City's infrastructure is so old that, due to constantly changing needs of the community, assets may need to be upgraded or replaced rather than renewed. Council will also be consolidating and reconfiguring assets to better meet changing community needs. If necessary, funding will be allocated to new assets. Internal borrowing will be used if required where additional income producing elements can be integrated into these developments.

In summary, the improvement of the Council's financial performance will be achieved through a multi-pronged approach. This approach will include a period of service level adjustment, implemented in consultation with the community, to ensure best value services that address the changing needs of community. This may include reconfiguration of, and changes in, the delivery of some services and facilities, to better address assessed community needs and requirements within available Council funding and address required risk mitigation.



Figure 1.2 - Six Strategies for Financial Sustainability

Six Strategies for Financial Sustainability

In 2013, the Council endorsed the *Six Strategies for Financial Sustainability*.

When implemented simultaneously, these six key strategies ensure a financially sustainable Council, living within its means and balancing service provision levels to available funding whilst managing risks.

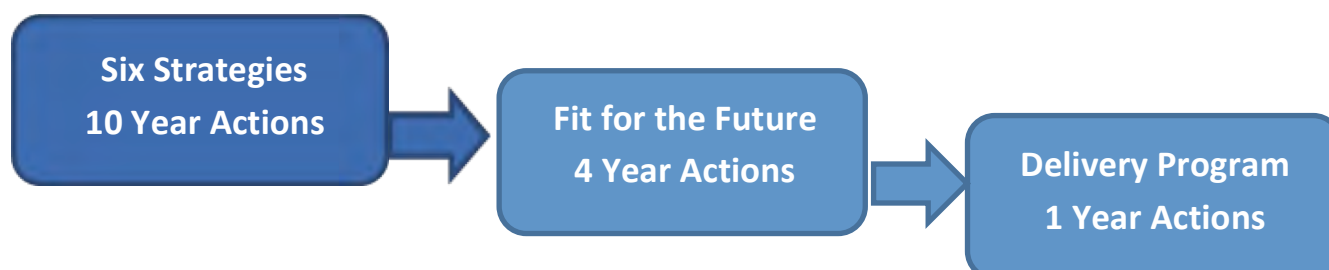
These strategies incorporate the latest financial, asset, workforce and service management planning knowledge. The actions supporting each of the strategies are reviewed and updated annually. Progress on the achievement of the strategies is reported to the Council on a quarterly basis.

This work has underpinned the Council being assessed in 2015 as Fit for the Future by the State Government as outlined below.



Fit for the Future Action Plan

Council's four year Fit for the Future Action Plan will ensure the right actions are taken to meet Fit for the Future requirements in 2019-2020, and stay Fit for the Future in the years beyond 2019-2020. The Fit for the Future Action Plan is driven by the *Six Strategies for Financial Sustainability* and is integrated into the one year actions of the Delivery Program. Sections 2.6 outline the Council's Fit for the Future Action Plan.



Fit for the Future Ratios

Council's Fit for the Future performance measures are outlined in Section 2.7, with 10 year projected results. Currently BMCC meets three out of seven Fit for the Future (FFTF) benchmarks as shown in Figure 1.3. Some ratios are required to meet specific set targets fully by 2019-2020, but others (including the Building and Infrastructure Asset Renewal Ratio and the Infrastructure Backlog) only need to show substantial improvement.

This Resourcing Strategy plans for the Council to meet all State government required FFTF targets by 2019-2020. As detailed in section 2.6 of the LTFP there are a number of assumptions and strategies that must be achieved over the next three years to reach this result including reduced operating expenditure and increased income.

| Criteria | Measure (Benchmark) | 2016/17 Meets | 2019/20 Meets |
|---|---|---------------|---------------|
| Sustainability | Operating Performance Ratio | ✗ | ✓ |
| | Own Source Revenue Ratio | ✓ | ✓ |
| | Building and Infrastructure Asset Renewal Ratio | ✗ | ✓ * |
| Effective Infrastructure & Service Management | Infrastructure Backlog Ratio | ✗ | ✓ * |
| | Asset Maintenance Ratio | ✗ | ✓ * |
| | Debt Service Ratio | ✓ | ✓ |
| Efficiency | Real Op. Expend. per Capita | ✓ | ✓ |

Figure 1.3 – Fit for the Future Benchmark Achievement

* These FFTF targets are assessed as met so long as the measure is trending favourably

Asset Management Strategy

In order to meet service level targets and ensure sustainable service delivery, the asset management strategies align with the LTFP, the *Six Strategies for Financial Sustainability* and the Council Strategic Priorities for the next four years. Specifically, Council's Asset Management Strategies are:

1. Ensure that BMCC's services and infrastructure are provided in a sustainable manner – managing the delivery of an affordable level of asset service provision within available funding
2. Develop and implement a suite of strategies to inform investment and ensure Council's assets sustainably meet community needs
3. Safeguard BMCC assets, including physical assets and employees
4. Demonstrate transparent and responsible asset management processes that align with best practice and statutory requirements and standards

As outlined in the Asset Management Strategy (AMS), the Council must continue to manage over \$1.1B worth of ageing infrastructure. In the past, asset maintenance and renewal has been below the required level resulting in significant deterioration in asset condition. In addition, a number of services need new or upgraded assets to continue to meet the needs of the community.

In balancing asset service levels to available revenue there are implications for the condition of Council's assets and the level of service able to be afforded. Given that the Council must live within its means, engaging community on a regular basis on affordable and acceptable levels of service is important. Current and 10 year target service levels for the Council's built assets in terms of their Condition, Function (fitness for purpose) and their Capacity are shown in Figure 1.5. These figures are based on low to medium quality best available data. A key component of the Council's Asset Management Improvement Plan is to improve asset management data.



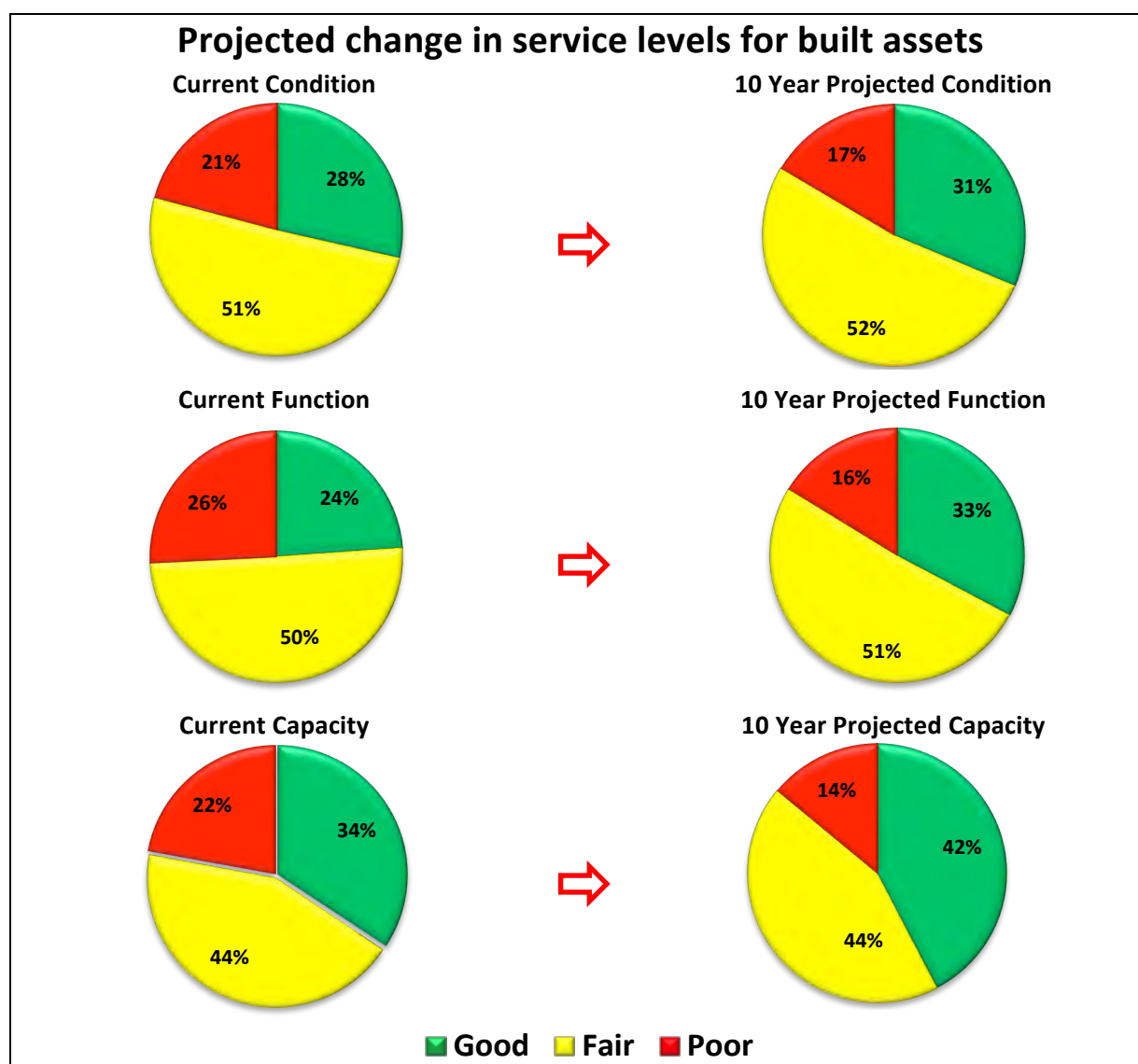


Figure 1.5 - Current and predicted service levels for built assets

Workforce Management Strategy

Blue Mountains City Council's *Workforce Management Strategy 2017-2027* takes a long-term view determining the workforce needs over a 10-year horizon. This is to ensure Council's workforce is structured and has the capacity to deliver the programs and priorities outlined in the *Community Strategic Plan 2035* and the *Council's four year Delivery Program 2017-2021*.

The purpose of the WMS strategy is to provide the platform to identify, consider and respond to the significant issues and risks facing the organisation now and into the future. In particular, it takes into account the increasing financial pressures facing the Council by strategically positioning our workforce to respond quickly to changing needs of the organisation. Ultimately, implementation of the strategy will deliver a highly safe, skilled and engaged workforce that provides "value for money" services to the Blue Mountains community. Significant workforce challenges and opportunities include expanding connectivity capability from technology, an ageing population with a wealth of skills and wisdom, increasing salary and superannuation requirements, enhancement of work health and safety and development of organisational structure for greater efficiencies and effectiveness.

1.3 resourcing the community strategic plan

The following tables show how the Council's ten year Resourcing Strategy supports the implementation of the *Blue Mountains Community Strategic Plan 2035* (CSP 2035). The tables show the Council's high level resourcing response to the CSP 2035 by Key Direction.

| KEY DIRECTION 1: LEAD – <i>Inspiring leadership</i> | |
|---|---|
| Council's Resourcing Response To Key Direction 1: LEAD | |
| Long Term Financial Plan | Through the implementation of the <i>Six Strategies for Financial Sustainability</i> and Fit for the Future Action Plan we will: <ul style="list-style-type: none"> - Ensure the Council meets Fit for the Future (FFTF) targets by 2019-20 and remains sustainable into the long term - Continue to deliver, and engage with the Community on, affordable and acceptable service levels - Ensure best value spend of the Special Variation to rates income to address high risk asset renewal and maintenance, improve services to the community, enhance Council's capacity for emergency response and continue to provide environment programs. |
| Asset Management Strategy | Through the implementation of the Asset Management Improvement Plan we will: <ul style="list-style-type: none"> - Improve Council's Asset Management maturity - Manage assets and risks to achieve agreed levels of affordable service |
| Workforce Management Strategy | Council's workforce will contribute to the delivery of a range of Lead strategic and operational support Council services including: <ul style="list-style-type: none"> - Strategic and Governance - Operational Support |
| LEAD CSP Objectives | Council 4-Year Priorities of Key Direction 1: LEAD |
| 1.1 The Council lives responsibly within its means and strengthens its financial sustainability | <ul style="list-style-type: none"> - Improve integration of Asset registers and asset management plans to inform achievement of affordable levels of service - Achieve Fit for the Future targets through implementing the Fit for the Future Action Plan - Implement the Long term financial plan <i>Six Strategies for Financial Sustainability</i>: <ul style="list-style-type: none"> o Avoid Shocks - Monitor and report on annual Fit for the Future targets o Balance the Budget - Strategic allocation of annual budget in alignment to the LTFP o Manage Debt and Investments Responsibly - improve borrowing capacity and maximise investment returns o Increase Income - Review Revenue Strategies including Property Disposal and Investment Program o Review and Adjust Services - Develop and align service and asset plans o Increase Advocacy and Partnerships - Develop an advocacy and partnership strategy - Implement the Council's Business Improvement Program to achieve cost savings, efficiencies, productivity and increase revenue - Develop and implement the Workplace Strategy to support and influence innovation, efficiency and business improvement - Identify innovative and creative ways to lowering costs and increasing income - Review the Council's financial systems to strengthen them against business requirements - Develop and progress e-business opportunities for financial transactions/services - Improve building, regulatory and compliance inspection services by implementing new technologies and business processes |

| KEY DIRECTION 1: LEAD – <i>Inspiring leadership</i> | |
|---|---|
| Lead CSP Objectives | Council 4-Year Priorities of Key Direction 1: LEAD |
| 1.2 All levels of government provide transparent, fair and accountable civic leadership and governance | <ul style="list-style-type: none"> - Use the best value decision making framework to ensure that available funding is well targeted to improve financial sustainability - Review Council meeting governance and reporting processes - Improve understanding of the Council's Long Term Financial Plan (LTFP) so that it drives and guides decision making - Strengthen the Council's Integrated Planning & Reporting processes - Position the Council to be proactive in communicating and engaging with the community on the business of Council - Engage community on updates of the Community Strategic Plan and the 10 year Resourcing Strategy – including affordable and acceptable levels of service - Development of the enterprise risk management framework including staff education - Corporate Policies are current and regularly reviewed - Implement the Council's Information Management Strategy to progress more strategic information management - Develop integrated management systems to continually improve key management systems |
| 1.3 All levels of government provide value for money sustainable services and infrastructure | <ul style="list-style-type: none"> - Plan and review Council's services to achieve best value affordable service provision that meets assessed community needs - Improve our approach to asset management - Implement the Workforce Management Strategy - Model, define and review affordable levels of Council service and asset provision within available revenue - Review the Council's Administrative Property Portfolio - Council supports trainees, apprentices and cadets |
| 1.4 All levels of government and the community work together to achieve a more sustainable, successful and resilient Blue Mountains | <ul style="list-style-type: none"> - Work with Greater Sydney Commission to finalise and implement the West District Plan - Negotiate and implement the City Deal with Australian and NSW Governments - Develop and implement the Priority Infrastructure Plan to coordinate and advocate for the delivery of future assets/services in the City - Improve and align planning and reporting between Council, State Agencies and adjoining councils - Actively participate in the Regional Strategic Alliance - Facilitate energy efficient initiatives that reduce greenhouse gas emissions from Council operations |

| KEY DIRECTION 2: PROTECT – <i>An Environmentally Responsible City</i> | |
|--|--|
| Council's Resourcing Response To Key Direction 2: PROTECT | |
| Long Term Financial Plan | Continue to fund environment programs and guide best value spend of additional funding from the Special Variation to Rates 2015 |
| Asset Management Strategy | Strategically allocate funding to address high risk renewal, maintenance and maximise opportunities to maintain the protection of the terrestrial ecosystems and waterways which Council manages. |
| Workforce Management Strategy | Council's workforce will contribute to the delivery of the services responding to this Key Direction: <ul style="list-style-type: none"> - Natural Environment - Waste Resource Management - Water Resource Management |
| PROTECT CSP Objectives | Council 4-year Priorities of Key Direction 2: PROTECT |
| 2.1 The condition, health and diversity of native flora, fauna, habitat, ecosystems, waterways, water catchments and groundwater are maintained and enhanced | <ul style="list-style-type: none"> - Deliver the High Priority Conservation Areas Restoration Program to restore rare and threatened ecological communities - Improve and maintain the condition and connectivity of native vegetation through targeted habitat restoration and weed control programs - Implement targeted habitat restoration and weed control programs. Natural area maintenance has a greater focus on bush regeneration, urban weed management and Bush care - Develop and commence delivery of the Blue Mountains Water Sensitive City Strategy - Implement effective catchment planning and deliver priority projects identified through Stormwater Drainage Asset Management Plans and the stormwater risk register - Floodplain Risk Management Plans are in place for areas with a high flood risk - Protect, enhance and monitor the condition of natural waterways and water catchments - Prepare an annual public report on Blue Mountains Waterways - Deliver the Healthy Waterways Engagement and Education Program to increase the water literacy of the Blue Mountains community - Manage pest species to reduce impacts on biodiversity and meet statutory requirements - Implement the Stormwater Renewal and Upgrade Program - Implement the Degraded Lands Restoration Program including soil conservation, reserve access control and improvements to vegetation connectivity - Advocate for no coal seam gas extraction |
| 2.2 Resources are used and managed in an environmentally responsible way | <ul style="list-style-type: none"> - Implement BMCC Waste Avoidance & Resource Recovery Strategy engagement & education strategies - Develop and commence delivery of the water sensitive city strategy - Implement BMCC Waste Avoidance and Resource Recovery Strategy, including identifying long term waste management and resource recovery options including investigating the feasibility of a food waste service - Facilitate energy efficient initiatives that reduce greenhouse gas emissions from Council operations |
| 2.3 The community and all levels of government work together to protect the Greater Blue Mountains World Heritage Area | <ul style="list-style-type: none"> - Protect the unique environmental values of the Blue Mountains through the implementation of the Local Environment Plan. - Develop and honour co-management agreements to support recognition and conservation of natural heritage assets - Implement the Natural Environment Program to maintain the quality of natural areas in Council management that adjoin the Greater Blue Mountains World Heritage |
| 2.4 Traditional owners and the broader Aboriginal community are supported to connect to, care for and benefit from Country | <ul style="list-style-type: none"> - Work in partnership with Aboriginal communities for the management of Country - Implement Gundungurra Indigenous Land Use Agreement and develop other agreements in consultation with Traditional Owners |

| KEY DIRECTION 3: CARE – <i>An inclusive, healthy and vibrant City</i> | |
|--|--|
| Council's Resourcing Response To Key Direction 3: CARE | |
| <i>Long Term Financial Plan</i> | Continue to fund Care services and programs. Guide best value spend of additional funding from the Special Variation to Rates 2015 to address high risk community facility asset renewal and maintenance, improve services to the community, and enhance Council's capacity for emergency response. Review asset lifecycle costs, valuation, useful life and depreciation of built assets. |
| <i>Asset Management Strategy</i> | Strategically allocate funding to address high risk asset renewal and maintenance, and maximise opportunities to attract grant funding for our local and visitor infrastructure. |
| <i>Workforce Management Strategy</i> | Council's workforce will contribute to the delivery of the services responding to this Key Direction: <ul style="list-style-type: none"> - Aquatic & Leisure Centres - Community Development - Cultural Development - Emergency Management - Environmental Health & Regulatory Compliance - Family Day Care - Libraries & Information - Sport & Recreation |
| CARE CSP Objectives | Council 4-Year Priorities of Key Direction 3: CARE |
| 3.1 Blue Mountains communities are safe, caring, diverse and inclusive | <ul style="list-style-type: none"> - Develop and implement the Community Facilities Strategy to ensure that community facilities across the City meet the current and future needs of the community - Implement priority community development initiatives from the Ageing Strategy, the Disability Inclusion Action Plan and the Child and Youth Plan - Facilitate initiatives that build social connections and cohesion - Implement the Child and Youth Plan and support the Stronger Families Alliance - Complete review of the community development service and implement outcomes - Work with Traditional Owners to develop strategies which deliver a positive and shared future, embracing the interests of all Aboriginal community members - Implement the Blue Mountains Ageing Strategy to prepare the City for the ageing of our population - Strengthen community and Council partnerships that support priority action areas - Implement the Aboriginal Advisory Council Strategic Plan - Acknowledge Aboriginal Community priorities for Blue Mountains LGA and develop agreements to implement these priorities - Implement, monitor and review the Blue Mountains Disability Inclusion Action Plan 2017-2021 |
| 3.2 The Blue Mountains community is healthy and active | <ul style="list-style-type: none"> - Identify and promote active living opportunities in the Blue Mountains - Plan recreational and sporting facilities in accordance with the Blue Mountains Open Space and Recreation Strategy, to ensure they meet the current and future needs of residents and visitors. - Play equipment in Blue Mountains parks is safe and suitable for children of a range of ages and abilities and has an on-going presence. - Maintain open space and recreation visitor facilities and manage high risks, especially at high visitation precincts - Implement the Open Space and Recreation Strategy to ensure the leisure and aquatic facilities meet the current and future needs of the community. - Plan and deliver a program of District Park upgrades to provide enhanced recreation facilities in consultation with community - Meet the open space and recreation facilities requirements of the Disability Discrimination Act |
| 3.3 The Blue Mountains community is resilient and prepared for natural disasters | <ul style="list-style-type: none"> - Implement best practice bush fire risk management on Council managed lands - Continue to maintain formal relationships with the Rural Fire Service and the State Emergency Service - Maintain organisational capacity to provide support to emergency organisations - Participate in the Resilient Sydney initiative and identify ways of strengthening resilience within the Blue Mountains - Implement flood risk management planning as part of Integrated Catchment Plans - Coordinate approaches to resilience and preparedness for emergencies |

| KEY DIRECTION 3: CARE – <i>An inclusive, healthy and vibrant City</i> | |
|--|---|
| CARE CSP Objectives | Council 4-Year Priorities of Key Direction 3: CARE |
| 3.4 The Blue Mountains is a centre of culture, creativity and life-long learning | <ul style="list-style-type: none"> - Ensure the Blue Mountains Cultural Centre and the Blue Mountains Theatre and Community Hub are high quality and well used facilities for the Blue Mountains community and visitors - Implement the Blue Mountains Cultural Strategy to plan and provide for Cultural development, including investment priorities - Support and administer the Blue Mountains City of the Arts Trust to deliver the Blue Mountains City of the Arts Trust Grant Program - Hold high quality exhibitions from local, national and international sources in the Blue Mountains, including at the Blue Mountains Cultural Centre - New library programs facilitate learning in a technological and social context - Broaden the library collection for information & cultural value and its meaning to local community. |



| KEY DIRECTION 4: LIVE – A liveable City | |
|--|---|
| Council's Resourcing Response To Key Direction 4: LIVE | |
| Long Term Financial Plan | Continue to fund Live services and programs. Address high risk asset renewal and maintenance and ensure funding allocation is guided by strategies and master plans and guide best value spend of additional funding from the Special Variation to Rates 2015. |
| Asset Management Strategy | Strategically allocate funding to address high risk asset renewal and maintenance, and ensure funding allocation is guided by strategies and Asset Management Plans. |
| Workforce Management Strategy | Council's workforce will contribute to the delivery of the services responding to this Key Direction: <ul style="list-style-type: none"> - Building Certification - Land Use Management - Burials & Ashes Placement - City Presentation - City-Wide Strategic Planning |
| LIVE CSP Objectives | Council 4-year Priorities of Key Direction 4: LIVE |
| 4.1 City planning drives the creation of vibrant and well-designed places and spaces for people to live, work and play | <ul style="list-style-type: none"> - Develop master plans and strategies to guide land use and infrastructure provision in town centres and major sites - Plan burial capacity to meet projected demand - Maintain a current Local Environmental Plan - Major sites with potential for alternative use have masterplans in place that guide land use and infrastructure planning - Sydney West District Plan and the City Deal maximises support for the Blue Mountains - Apply planning controls that protect areas of residential character - Develop and implement a town centre improvement program - A Local Strategic Planning Statement supports the spatial planning framework for the city |
| 4.2 The distinctive qualities of towns and villages are maintained and local identity and sense of pride strengthened | <ul style="list-style-type: none"> - Implement City Presentation improvement programs and initiatives - Review public toilet renewal program and implement planned renewal - Implement the Cemetery Asset Renewal Plan - Support partnerships between the Council and the community that maintain beautification of towns and villages - Review and implement the Blue Mountains Crime Prevention Plan |
| 4.3 The impact of development on the natural and built environment is well managed | <ul style="list-style-type: none"> - Improve quality of spatial data in Council's planning framework for efficient development assessment - Deliver Council's Part 5 environmental assessment process to assess the environmental impacts of Council's development proposals to a high quality, professional standard - Deliver the Sewage Strategy to ensure impacts of sewage on the natural environment are minimised. - Implement the Local Environment Plan and Development Control Plan - Continue advocacy in relation to Western Sydney Airport including the impacts on the Blue Mountains environment and communities - Communicate impacts of the land use planning legislative reform process for Blue Mountains community - Work in partnership with Traditional Owners and Aboriginal communities on preservation and maintenance of key sites - Support conservation of local heritage |
| 4.4 The City's housing meets the diverse needs of the community | <ul style="list-style-type: none"> - Develop and implement the Blue Mountains City Council Local Housing Strategy |

| KEY DIRECTION 5: MOVE – <i>An accessible City</i> | |
|--|---|
| Council's Resourcing Response To Key Direction 5: MOVE | |
| <i>Long Term Financial Plan</i> | Continue to fund Move services and programs. Guide best value spend of additional funding from the Special Variation to Rates 2015 to respond to endorsed strategies, address high risk asset renewal and maintenance, review asset lifecycle costs, valuation, useful life and depreciation of built assets. |
| <i>Asset Management Strategy</i> | Strategically allocate funding to address high risk asset renewal and maintenance, reduce the deterioration of road assets and be well prepared to address any shocks in accordance with the Asset management Strategy and Asset Management Plans. |
| <i>Workforce Management Strategy</i> | Council's workforce will contribute to the delivery of the services responding to this Key Direction: <ul style="list-style-type: none"> - Transport & Public Access |
| MOVE CSP Objectives | Council 4-year Priorities of Key Direction 5: MOVE |
| 5.1 The City has an integrated, accessible and sustainable transport network | <ul style="list-style-type: none"> - Finalise and implement the Integrated Transport Strategy for the Blue Mountains - Improve accessibility within the city - Implement the Heavy Vehicle Drive Neighbourly Agreement to manage growth of road freight on Great Western Highway - Implement priority actions from the Blue Mountains City Council Citywide Parking Strategy 2017-2021 - Prepare plans for managing parking at key tourist precinct sites - Implement Blackheath Village Parking Options and Leura Tourist Bus Strategy - Implement Lawson Town Centre Car Parking Plan - Implement the Hazelbrook Masterplan carpark actions |
| 5.2 The City has a safe, well designed and maintained network of roads | <ul style="list-style-type: none"> - Implement Town Centre, Transport & Public Access Infrastructure related projects identified through adopted Masterplans - Implement Road Reseal and Renewal Program - Implement the Traffic Barrier Construction Program based on risk assessments - Implement town centre, transport & public access infrastructure related projects |
| 5.3 The City has an integrated, accessible public transport network with good connections within the City and to the Greater Sydney Region | <ul style="list-style-type: none"> - Finalise and implement the Integrated Transport Strategy for the Blue Mountains |
| 5.4 The City has a pedestrian and cycleway network that supports active movement and access to centres and facilities | <ul style="list-style-type: none"> - Deliver the Blue Mountains Pedestrian Access Mobility Plan 2025 and Bike Plan 2020 to create safe and accessible pathways of travel across the local government area - Deliver the Transport Footpath Renewal and Footpath Grinding and Assessment Programs based on the Pedestrian Access and Mobility Plan |

| KEY DIRECTION 6: THRIVE – <i>An economically sustainable City</i> | |
|---|---|
| Council's Resourcing Response To Key Direction 6: THRIVE | |
| Long Term Financial Plan | Continue to fund Thrive services and programs. Guide best value spend of additional funding from the Special Variation to Rates 2015 to address high risk asset renewal and maintenance, review asset lifecycle costs, valuation, useful life and depreciation of built assets. |
| Asset Management Strategy | Strategically allocate funding to address high risk asset renewal and maintenance, be well prepared to address any shocks, and maximise opportunities to attract grant funding for our local and visitor infrastructure. |
| Workforce Management Strategy | Council's workforce will contribute to the delivery of the services responding to this Key Direction: <ul style="list-style-type: none"> - Economic Development & Tourism - Commercial Activities |
| THRIVE CSP Objectives | Council 4-year Priorities of Key Direction 6: THRIVE |
| 6.1 The City's economy is diverse, vibrant and strong with increased local employment | <ul style="list-style-type: none"> - Implement the Blue Mountains City Council Economic Strategy 2017 to plan for and provide opportunities for employment and economic investment that are also environmentally sustainable - Support strengthening of small businesses - Use Council's physical and digital infrastructure in innovative ways to support advertising of local business - Implement the Events Strategy to support the local economy and continue to support local community events - Improve economic opportunities for Aboriginal people, including increased employment outcomes - Work with the Regional Strategic Alliance to implement the Regional Tourism Strategy - Work with Destinations NSW and Destination Networks to advocate for the Blue Mountains |
| 6.2 The City of the Blue Mountains has a strong identity that builds on its natural and built heritage, and creative strengths as a City of the Arts and a city surrounded by a World Heritage area | <ul style="list-style-type: none"> - Implement the Blue Mountains City Council Economic Strategy 2017 - Support sustainable industries to relocate to the Blue Mountains through the BM Economic Enterprise - Advocate for establishment of new centres of learning in the Blue Mountains - Identify strategies to leverage off the unique identity of the Blue Mountains as a centre of culture, creativity and the arts - Implement the Blue Mountains Destination Management Plan to improve tourism's contribution to the Blue Mountains economy and the visitor experience - Implement the Blue Mountains City Council Economic Strategy 2017 |
| 6.3 The City's infrastructure supports diverse and sustainable economic development | <ul style="list-style-type: none"> - Develop and implement the Priority Infrastructure Plan to advocate for and coordinate the delivery of future assets/services in the City, including improved digital connectivity through the NBN. - Develop and implement a business plan for Council owned tourist parks, including review of current operations and preferred options for future management - Plan and deliver a program for major tourism precincts and activities that support commercial operations including the Southern and Eastern Scenic Escarpment Masterplans - Develop Smart work Hubs in the Blue Mountains |
| 6.4 The Blue Mountains is a leader of sustainable tourism and destination management within a World Heritage Area | <ul style="list-style-type: none"> - Implement the Blue Mountains Destination Management Plan to improve tourism's contribution to the Blue Mountains economy and the visitor experience and to plan for and manage the impact of visitation on local amenity, infrastructure and services - Deliver Visitor Information Centres upgrade to enable them to fill a Regional Tourism role and provide a high quality visitor experience. - Implement the Visitor User Pays Strategy & manage increasing visitor numbers at major tourist destinations - Advocate for tourism development that delivers local benefits - Work with the Regional Strategic Alliance on the regional tourism marketing entity - Implement the Blue Mountains City Council Economic Strategy |

1.4 city profile

Overview

Located on the western fringe of the Greater Sydney Region, the City of Blue Mountains is one of only two cities in the world surrounded by a UNESCO declared World Heritage National Park. With a spectacular environmental setting, the Blue Mountains is home to a community of nearly 80,000 people residing in 27 towns and villages located over 100 kilometres of mountainous terrain.

The key challenge for the City of Blue Mountains is how we can foster social and economic well-being, whilst maintaining and protecting the surrounding World Heritage environment for future generations to come.

Regional Context

The City of Blue Mountains covers an area of 1,431 km² with 70% comprising World Heritage National Park, of which only 11% is available for settlement. It stretches across the Great Dividing Range and provides a major road and rail transport link between urban Sydney and the more rural central west areas of NSW.

Many Blue Mountains residents work in metropolitan Sydney and many of the services we regularly use are located in metropolitan Sydney. We benefit from direct transport links to major economic centres in Western Sydney and Sydney's central business district. A railway line with regular train services passes through most of our towns and villages, making the Blue Mountains more accessible than other areas on the fringe of Sydney. Rail and road transport links also support our tourism industry, making it easy for tours and independent travellers to visit.

Our Council is one of only four classified under the Australian Classification of Local Governments as Category 12 – Large Fringe City with a population between 70,001 and 120,000.

Population

The Estimated Resident Population of Blue Mountains City was 79,812 as of 30th June 2015. The population has increased on average by 0.5% per annum (or 384 residents) compared to a NSW average increase of 1.3% and an Australia wide population increase of 1.7%.

CITY AT A GLANCE

- Population of 79,812 people – lowest growth Greater Sydney
- Urban fringe
- 27 towns & villages over 100 kms mountainous terrain
- One of two cities in world surrounded UNESCO World Heritage National Park
- 9,768 visitors on average each day (day trippers & overnight)
- 342 km of interface with World Heritage National Park to be actively managed

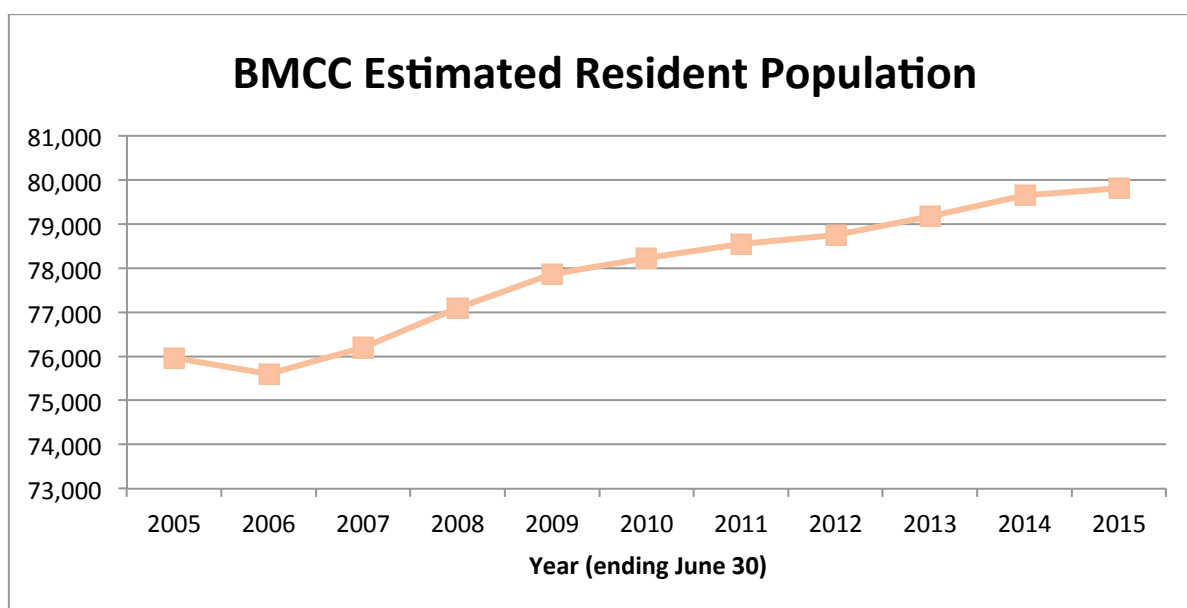


Figure 1.6 – Estimated Resident Population (Source: Australian Bureau of Statistics, *Regional Population Growth, Australia (3218.0)*. Compiled and presented in *economy.id* by .id, the population experts)

In 2011, the total population of Blue Mountains City was estimated to be 78,553 people. It is expected to increase by over 1,700 people to 80,297 by 2026, at an average annual growth rate of 0.15%. This is based on an increase of over 2,700 households during the period, with the average number of persons per household falling from 2.52 to 2.36 by 2026. This is shown in figure 1.7 below.

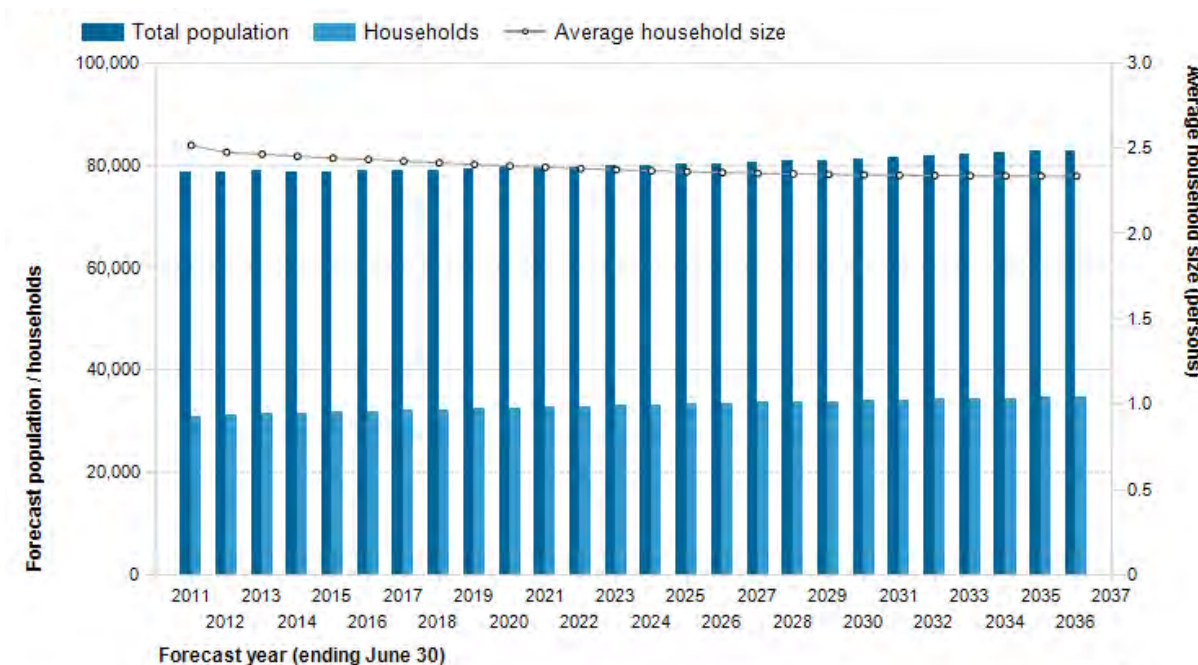


Figure 1.7 - Population and household forecasts, 2011 to 2036, prepared by .id the population experts, May 2016.

The Estimated Resident Population does not break down data any further than population by Local Government Area (LGA). Therefore the latest Census data is used to get a more detailed view of the city and population. At the time of the development of this Resourcing Strategy the 2016 Australian Census had not yet been released and so uses data from the 2011 Census.

From the 2011 Census, the City had a population with:

- An average age of 42
- A median weekly household income \$1,270
- A median monthly mortgage repayment \$1,842
- A median weekly rent \$280
- An average household size of 2.5 persons
- An average number of persons per bedroom 1.1
- An average number of motor vehicles per dwelling 1.7

Demographic trends over the period 2001 – 2011 indicate that the population of those aged 49 and under are reducing, while there is a large increase in the population of those aged 50 and over.

SEIFA Index of Disadvantaged

The Index of Relative Socio-economic Disadvantage (IRSD) summarises a range of information about the economic and social factors of people and households within an area to derive a score. A high score indicates a relative lack of disadvantage in general. For example, an area may have a high score if there are (among other things): few households with low incomes; few people with no qualifications; and few people in low skilled occupations. The index ranks Blue Mountains population at 128 out of 153 Local Government Areas, making it one of the relatively less disadvantaged areas in NSW.

A City in a World Heritage Area

World Heritage Environment – an important management role for the Council and community

The Greater Blue Mountains Area is a nationally and internationally significant World Heritage Listed (UNESCO) environmental area and unique tourist destination. Many residents and businesses benefit from the amenity, lifestyle, recreation and jobs that the unique aspects of this natural area bring to them. The Blue Mountains is one of only two cities in the world surrounded by a World Heritage National Park.

The area is one of 16 National Landscapes identified and promoted by the Australian Government as “must see” nature tourism destinations. The area has outstanding natural value with one of the most extensive, diverse and significant heritage listed walking track networks in Australia, attracting thousands of visitors to the area keen to experience the scenic beauty, scientific importance and heritage significance of the Blue Mountains. The investment into the quality and extent of these assets support a healthy and sustainable relationship between the natural environment and all those individuals, communities and organisations who occupy or visit the City. Over 3 million visitors come to the Blue Mountains to experience nature-based recreation per annum (Draft Destination Management Plan 2017).

The Council works to protect this valuable World Heritage asset by regulating the impact of urban development on natural areas and delivering environmental management programs such as bushland restoration, preservation of cultural heritage, stormwater management, and water quality monitoring.

City for Visitors

A Major Recreation & Tourism Destination

As shown in the figures below, the Blue Mountains is a major recreation and tourism destination. It is the second most highly visited Australian World Heritage site. It is currently estimated that there are 9,768 visitors on average each day (including day trippers & overnight stays).

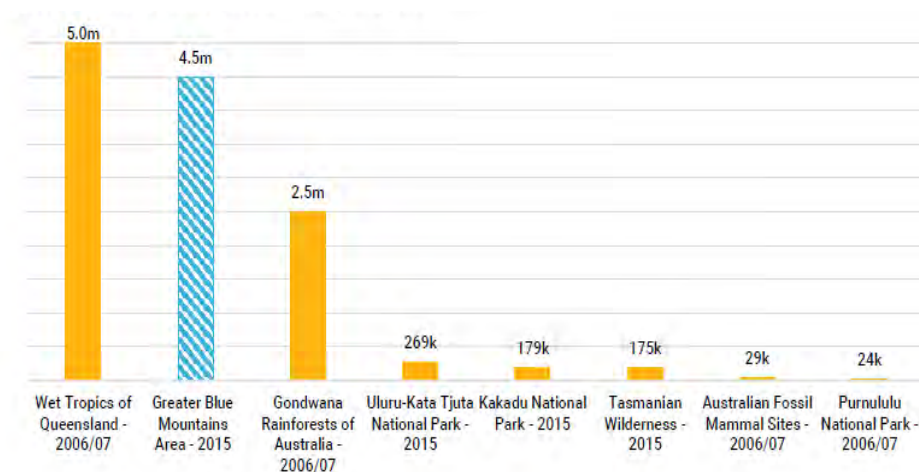


Figure 1.8 – Visitation to selected Australian World Heritage sites

Source: Blue Mountains Destination Management Plan (2017, p 56)

The number of visitors to the City has grown rapidly, and beyond the capacity of existing infrastructure, services and facilities to meet it. This has resulted in adverse impacts on local amenity (e.g. parking and traffic congestion) and facilities unable to manage the volume of visitors (e.g. public toilets). The table below shows the projected increase in visitor numbers under low, medium and high growth scenarios. Under the high growth scenario it is estimated that by 2025 visitation to the Blue Mountains will have increased from current 3.2M to 4.5M visitors annually – an increase of 41%. Under the medium and low growth scenarios the increase in visitation is forecast to be 16% and 11% respectively.

| | 2016f ¹ | 2020f | 2025f | Total Change (2016 – 2025) | Change % |
|-------------------------|--------------------|--------------|--------------|----------------------------|------------|
| Low Growth | | | | | |
| Domestic Day | 1.55m | 1.63m | 1.71m | 160k | 10% |
| Domestic Overnight | 531k | 558k | 588k | 56k | 11% |
| International Day | 972k | 1.03m | 1.09m | 114k | 12% |
| International Overnight | 51k | 53k | 56k | 5k | 10% |
| Total | 3.11m | 3.27m | 3.44m | 336k | 11% |
| Medium Growth | | | | | |
| Domestic Day | 1.56m | 1.68m | 1.80m | 231k | 15% |
| Domestic Overnight | 534k | 571k | 612k | 78k | 15% |
| International Day | 984k | 1.08m | 1.17m | 187k | 19% |
| International Overnight | 51k | 54k | 58k | 7k | 13% |
| Total | 3.13m | 3.38m | 3.64m | 503k | 16% |
| High Growth | | | | | |
| Domestic Day | 1.59m | 1.80m | 2.04m | 452k | 28% |
| Domestic Overnight | 544k | 678k | 937k | 393k | 72% |
| International Day | 1.01m | 1.20m | 1.42m | 415k | 41% |
| International Overnight | 52k | 65k | 91k | 39k | 76% |
| Total | 3.20m | 3.75m | 4.50m | 1.30m | 41% |

Table 1.9 - Visitor Growth Forecasts Source Blue Mountains Destination Management Plan (2017, page 14)

Strategies and plans are currently being investigated by Council to:

- Better manage the impact of projected increases in visitation on infrastructure, local amenity, the economy and the environment;
- Help grow the visitor economy on a sustainable basis;
- Provide solutions to challenges facing the LGA to support sustainable visitor growth;
- Identify new development and related solutions to attract investment and grow economic benefits, such as employment;
- Support future funding bids for specific projects, including NSW State Government funding opportunities;
- Provide direction on key marketing activities to support increased visitor demand for the LGA; and
- Help build stronger local community awareness of the importance and value of the visitor economy.

City on the Edge

The City of Blue Mountains is located on the edge of the largest metropolis in Australia – Sydney. It is also located on the edge of the Blue Mountains National Park World Heritage Area. This location brings opportunities of proximity to markets but also many challenges particularly in managing and reducing the impact of ridgeline settlement on the World Heritage Area below. This makes provision of required infrastructure and services more costly.

Being a City surrounded by World Heritage Listed National Park adds to the imperative and financial challenge for the Council to protect and restore the natural environment and manage the impact of development on it. Significantly, the Council is responsible for managing natural assets including over 10,000ha of terrestrial ecosystems, 317 km of creeks, 2 lakes and a number of critically endangered or endangered ecological communities.



Workforce and economy

- Our Gross Regional Product (GRP) (measuring the final value of goods and services produced) rose from \$2.4B in 2014 to \$2.8B in 2016 (*source: REMPLAN*), however it is falling slightly as a percentage of NSW Gross State Product.
- The Blue Mountains is home to 6,086 registered businesses as of January 2017, an increase on the year before (5,742 as at 23 Jan 2016) with major industry groups including Finance and Insurance, Professional Scientific and Technical, Construction and Arts and Recreation.
- At the time of the 2011 census 17,902 or 50.3% of Blue Mountains City's working residents travel outside of the area to work.
- At the time of the 2011 census there were over 16, 500 local jobs in the Blue Mountains, 85% of these are occupied by Blue Mountains residents.
- At the time of the 2011 census 15,350 people or 43.1% of Blue Mountains City's local labour force have a tertiary qualification.
- Unemployment rate is 3.6% and is lower than the State average of 5.4% (*Source: Dept of Employment, Small Area Labour Markets, March 2016*)
- At the time of the 2011 census the most popular occupations were Professionals (28.8%) followed by Clerical and Administrative Workers (14.3%), and Technicians and Trade Workers (13.2%)
- The most popular employment sectors are Health Care and Social Assistance (17.4%), Retail trade (12.2%), Tourism (11.9%), Education and Training (11.6%), Professional Scientific and Technical services (6.7%), Public Administration & Safety (6.7%), Construction services (6.5%) (*2015-16 data from REMPLAN sourced from: Australian Bureau of Statistics (ABS), Tourism Satellite Account*)
- The number of home based businesses in the Blue Mountains is increasing.
- A recent study showed that up to 28% of Katoomba residents regularly work from home using the internet.
- Our rates of internet connection are higher than the state average.
- Between 2014-2015 tourist visitation rose from 2.7M to 3.1M.
- Annual visitation to the Blue Mountains is expected to increase from 3.2M in 2016 to 4.5M by 2025.

The Blue Mountains is renowned for its iconic landscape, nature-based tourism and recreation, culture and arts, which bring significant flow-on effects to retail, food and accommodation industries.

1.5 big picture

The context in which Council, community, agencies and local organisations need to deliver on the vision and objectives of the CSP is varied and challenging with many inherent opportunities. In addition to delivering efficient and quality services in response to the CSP and within available resources, Council must also manage and plan for many factors which are outside its control.

Climate

Climate is changing. It is predicted that the Blue Mountains could experience increased temperatures of 2°C, decreased annual rainfall and increased summer wind speeds of 10% by 2050. Already, highlighted by the Bureau of Meteorology, there is a pattern of an earlier-than-usual fire season, due to the combination of dry fuels, high temperatures and strong winds. Significant snow events and large hailstones have also been noted.

Regional Partnerships

Blue Mountains City Council has entered into a Regional Strategic Alliance with Penrith and Hawkesbury councils, with the aim of achieving cost savings from economies of scale, enhanced regional advocacy and improved regional planning outcomes.

Greater Sydney District Planning

The Greater Sydney Commission, created in 2015, is responsible for metropolitan planning in a partnership between the State and Local Governments.

The Blue Mountains is part of West Planning District with Penrith and Hawkesbury councils. The challenge for the Blue Mountains, being part of the West District, is that our community and rate of growth are very different from the district overall.

Greater Sydney, and Western Sydney, continue to grow at a much faster rate than the Blue Mountains. The Blue Mountains LGA, together with Hawkesbury and Penrith LGAs, is part of the Sydney West District. This district is projected to grow by more than 111,800 people over the next 20 years.

“Towards our Greater Sydney 2056” is a draft plan for growing Sydney, which is being revised in 2017, in line with the District Plans which are due to be finalised by the end of 2017.

This 2017 review is taking place in parallel with the review of the NSW Transport Plan and State Infrastructure Strategy, both of which will align with the NSW Intergenerational Report 2016.

Housing

Land and housing values are rising faster in Greater Sydney than in the Blue Mountains. Upward pressure on house prices, driven by increased investor activity, has not been as strong in the Blue Mountains. This means that the Blue Mountains has remained relatively more affordable for housing than the rest of Sydney. Despite this, community engagement on the update of the Community

Strategic Plan identified the need for more diverse and affordable housing as one of the highest priorities for the City.

National Broadband Network (NBN)

The introduction of the National Broadband Network (NBN) has enhanced the digital capacity of the City, supporting a further increase in the number of Blue Mountains residents working from home either in a home-based business or remotely.

Transport Infrastructure

The Australian Government released a draft Environmental Impact Statement (EIS) for the proposed Western Sydney Airport at Badgerys Creek, together with a draft Airport Plan in late 2015. This major infrastructure proposal could have a wide range of significant impacts on the Blue Mountains community, environment and local economy.

Of particular concern is the inadequacy of the Environmental Impact Statement and community engagement implemented to date, given the potentially significant adverse impact on quality of life, the health of the community and on the World Heritage environment from the proposed scale of the airport, flight paths and hours of operation.

Long-term upgrades to the transport system could change accessibility for Blue Mountains residents, especially to employment opportunities on Sydney's fringe. The proposed Outer Sydney Orbital and Bells Line of Road/M7 Castlereagh Connection will provide increased capacity to the North West and South West growth centres and could free up local roads.



1.6 other challenges and opportunities

There are a number of other challenges and opportunities relevant to all three components of the Resourcing Strategy that the Council is aiming to address.

Ageing population

The Blue Mountains local Government area has a population that is older and ageing faster than the NSW average.

More people are living longer than ever and people aged 65 or over are a significant and growing sector of our community. Supporting older residents to continue to lead active and independent lives does not simply deliver financial benefits but enriches the social and cultural fabric of the community. Council has an essential role in assisting older residents to remain engaged with their community, stay part of the active workforce and undertake activities that interest and fulfil them.

A 10 year Ageing Strategy is due to be finalised in 2017 to help address the needs of older people in the Blue Mountains community.

Local Government Reform

Over the past number of years there has been an ongoing process of review and reform by the NSW State Government, aimed at improving local government's strength and effectiveness. Among other things, this process has included the NSW Government's Fit for the Future (FFTF) reform package.

Other reviews that are yet to be finalised by the NSW Office of Local Government (OLG) are the Review of Reporting and Compliance Burdens on Local Government, the Review of the Rating System and the Review of the NSW Local Government Act.

Financial constraints

For many years there has been underfunding of the City's ageing built infrastructure assets (roads, stormwater drainage, community and recreation facilities etc.) much of which was originally funded by other levels of government. The number of built assets in the Blue Mountains local government area is in many cases greater than the average for local government areas. This is largely due to the dispersed nature of the towns and villages in the City spread out over 100km of mountainous terrain. The increasing cost of maintaining, and eventually replacing, these assets is a financial challenge.

The underfunding of asset replacement is due to many years of costs rising faster than income, constraints on Council's ability to increase income due to rate pegging, cost shifting and funding cuts from other levels of government, and the sheer quantity of built assets to be managed.

The impact of this underfunding is highlighted in the Council's past and current Deficit Operating Result (including depreciation). This Resourcing Strategy continues the good progress made over the past four years in improving the financial position of the City and supports achievement of operating surpluses over the next 10 years.

Technology

Increasingly, our community is becoming more digitally connected. Between 2006 and 2011 the percentage of households with an internet connection rose from 69% to 81% (source: ABS 2011 Census Data), and in 2016 work has commenced to connect Blue Mountains households to the National Broadband Network (NBN).

Demand for mobility and access to systems and data in any place at any time is increasing. Council's customers also expect to be able to conduct business with Council at a time and place of their choosing.

In the longer term, climate change is expected to become increasingly significant and the responsibilities to reduce emissions and implement 'Green IT' will grow. IT can play an important role in reducing Council's greenhouse emissions.

The costs of maintaining the IT environment are rising at around 5% per year whilst at the same time there is rising demand for new and better services.

A planned approach to the acquisition, upgrade, replacement and implementation of business systems is critical to the success of the enterprise.

Duplicated service provision to 17 Council locations over a wide geographic area results in greater IT costs to the organisation, not only in capital assets but in communications costs such as fibre services between the various network locations. Removing the dependence on expensive fibre services is a key part of Council's Information Technology Strategy 2015-2019.

The priority focus areas of the Information Technology Strategy are:

1. Reduce Physical Infrastructure Costs
2. Business Systems Fit for the Future
3. Mobility - Workforce & Service Provision
4. eBusiness
5. Partnerships & Effective Decision Making (IT Governance)
6. Information (Knowledge) Management
7. Business Continuity

long term financial plan



2.1 introduction

This *Long Term Financial Plan* addresses the following key elements:

- The Council's current financial position and performance (**Section 2.3 – Current Financial Position**)
- The Council's *Six Financial Strategies for Financial Sustainability* that will drive the achievement of financial targets (**Section 2.4 – A Council committed to financial sustainability**)
- Overview of long-term financial projections (**Section 2.5 – Long Term Financial Plan**)
- The Council's Fit for the Future Action Plan (**Section 2.6 – Fit for the Future Action Plan**)
- The projected financial performance (**Section 2.7 – Measuring financial sustainability**)
- Key planning assumptions used in the development of the plan (**Section 2.8 – Key planning assumptions, revenue and expenditure forecasts**)
- The risks of not achieving the financial plan (**Section 2.9 – Risk assessment**)
- Financial planning conclusions (**Section 2.10 – Conclusions**)



2.2 executive summary

The *Long Term Financial Plan (LTFP)* establishes the framework for sound financial decisions, as well as being a financial modelling tool that:

- Assesses revenue building capacity to resource the implementation of our Community Strategic Plan 2035;
- Establishes the Council's transparency and accountability to the community in managing the City's finances;
- Provides an opportunity for early identification of financial issues and any likely impacts in the longer term; and
- Confirms that the Council can be financially sustainable in the longer term and can meet Fit for the Future requirements.

Like most NSW councils, we continue to face increasing pressures on our financial sustainability and on our ability to provide our community with the current levels of services and facilities with our current levels of funding. These pressures are a result of costs rising faster than the allowable increase in rating revenue, cost shifting from other levels of government, increasing visitation to the City and the costs of ageing infrastructure.

The NSW Office of Local Government, as part of their plan for local government reform, has implemented the Fit for the Future program. The Fit for the Future measures check that every council in NSW can meet the future needs of communities, is financially sound and operating efficiently to ensure all can provide value for money by delivering quality services and infrastructure.

The Fit for the Future assessments have shown that Blue Mountains City Council is in a strong position in meeting all the Fit for the Future criteria. The Council was declared Fit for the Future by the State Government in Oct 2015 on the basis that we will achieve sustainability, service and infrastructure management, scale and capacity, and efficiency targets by 2019-2020. This result is based on achieving improvement in all Fit for the Future measures where we are not already meeting the benchmark.

To ensure we achieve financial sustainability into the future, a review of the *LTFP* occurs each year to confirm the Council's financial management strategies are meeting the needs of the City. The *LTFP* confirms Fit for the Future results will be achieved by 2019-2020 and further required improvements are projected for the following years.

The *LTFP's* strategic approach is underpinned by the Council's *Six Strategies for Financial Sustainability* that were adopted by the Council in 2013. These six key financial strategies are:

- Strategy 1: Avoiding shocks
- Strategy 2: Balancing the budget
- Strategy 3: Managing borrowings & investments responsibly
- Strategy 4: Increasing income
- Strategy 5: Reviewing and adjusting service levels
- Strategy 6: Increasing advocacy and partnerships

The Council will always ensure that we implement a responsible Long Term Financial Plan inclusive of all *Six Strategies for Financial Sustainability*, which will ensure:

- That we maintain sufficient cash reserves to meet our short term working capital requirements;
- We maintain the financial capacity to fund the service and assets requirements of the City over the long term;
- We deliver the best possible range of value for money services to meet changing community needs within available funding.
- That within available funding we can achieve our *Asset Management Strategy* and *Asset Works Program*, including required renewal and maintenance of assets at agreed affordable levels of service; and
- We manage risks responsibly so that we fulfil our custodian role;

The LTFP will deliver the community's priorities as reflected in the *Blue Mountains City Council Community Strategic Plan 2035*. The plan enables us to continue to provide the best possible services for our community by ensuring financial sustainability into the future.

Over the past four years the financial position of the City and the Council has improved significantly. This is a direct result of the Council taking leadership to live within its means by implementing its *Six Strategies for Financial Sustainability*. Over the next four years the key focus of the Long Term Financial Plan will be to support Council to achieve:

- Determining affordable and acceptable levels of service in consultation with the community through ongoing review of services and service levels required in the City;
- Funding the optimal lifecycle costs of the built assets that are supporting the delivery of required services and the achievement of determined levels of affordable service provision;
- Ensuring best value spending of available funding, including additional income obtained from the community endorsed Special Variation to rates 2015 (SV2);
- Managing costs rising faster than income by reducing costs, increasing income and achieving efficiencies through implementation of the Council's Business Improvement Program and other initiatives required;
- Planning for and developing sustainable services and infrastructure to meet the changing needs of the community; and
- Managing the impact of growing visitation and ensuring visitors are funding these increasing costs through implementing a user pays strategy.

The following sections of the *LTFP* consider the analysis of our current financial position and performance, where we need to be in the future, and the strategies that will help us reach our financial sustainability targets, and the Fit for the Future ratios that will measure our financial performance.

2.3 current financial position

As confirmed by NSW Treasury Corporation (TCorp) and reported in the Council's Annual Financial Statements, the Council's financial results are sound, albeit with significant challenges each year in managing costs rising faster than available revenue. Revenue has increased over the past few years and our expenditure has been well managed. Our cash liquidity (i.e. our working capital) is sound and the majority of the financial performance measures are above benchmark.

In 2015 a successful application was made to IPART for a special variation to rates to obtain additional income to improve financial sustainability of the Council and reverse decline in the City's \$1.1B worth of built assets. Additional income obtained will also be spent on improving important issues for our community including emergency preparedness and response associated with being an area prone to natural disasters, continuing the funding of environmental programs critical for a City surrounded by a World Heritage listed Area and improving community services.

The 2015-2016 year actuals reported in the tables following include the first year of additional rates due to the Special Variation, but only a 6.6% increase (including rate peg) that reinstates environmental programs on a permanent basis following the expiration of the 10 year Environment Levy. The majority of the approved SRV increases are three annual increases of 9.6% (including rate peg) in the subsequent years from 2016-17 to 2018-2019.

In Oct 2015 Blue Mountains City Council was deemed Fit for the Future by the Independent Pricing and Regulatory Tribunal (IPART) as we were able to clearly demonstrate that we have a comprehensive financial plan and are well positioned for the future. By 2019-2020 BMCC meets the IPART criteria, as we achieve improvement in all FFtF benchmarks. Currently three of the benchmarks are fully met, with strategies in place to ensure those not yet met will be met. BMCC was one of just nine metropolitan councils deemed "Fit For the Future" (FFtF) and fit to stand alone, with only 40% of councils across NSW being deemed Fit for the Future.

Council's long term financial plan well positions us for a successful financial future.

| Revenue Source | % of Budget | \$M |
|--|-------------|----------------|
| Rates & Annual Charges | 56% | \$61.3 |
| User Charges & Fees | 16% | \$17.8 |
| Interest on Investments | 1% | \$1.1 |
| State Government Grants (operating) | 3% | \$3.6 |
| State Government Grants (capital) | 1% | \$1.0 |
| Federal Government Grants (operating) | 10% | \$10.9 |
| Contributions (operating) | 2% | \$1.7 |
| Contributions (capital) | 0% | \$0.4 |
| Other Revenue | 10% | \$10.9 |
| Total Revenue (including capital) | 100% | \$108.7 |

Table 2-1 Sources of Council revenue 2015-2016 (Source: BMCC Audited Annual Financial Statements 2015-2016)

| Expenditure | % of Budget | \$M |
|------------------------------|-------------|----------------|
| Employee Benefits & On-costs | 45% | \$46.9 |
| Borrowing Costs | 3% | \$3.2 |
| Materials & Contracts | 23% | \$23.9 |
| Depreciation & Amortisation | 17% | \$17.5 |
| Other Expenses | 13% | \$13.7 |
| Total | 100% | \$105.3 |

Table 2-2 Areas of Council expenditure 2015-2016 (Source: BMCC Audited Annual Financial Statements 2015-2016)

| | \$M |
|--|----------------|
| INCOME STATEMENT | |
| Total Income from Continuing Operations (including capital) | \$108.8 |
| Total Expenses from Continuing Operations | (\$105.3) |
| Net Operating Result for the year (including capital) | \$3.5 |
| Net Operating Result excluding Capital Revenue | (\$2.0) |
| BALANCE SHEET | |
| Total Current Assets | \$42.1 |
| Total Non-Current Assets | \$727.7 |
| Total Current Liabilities | (\$24.7) |
| Total Non-Current Liabilities | (\$42.3) |
| Total Equity | \$702.8 |
| CASH FLOW | |
| Net Cash Provided Operating Activities | \$17.1 |
| Net Cash Used in Investing Activities | \$8.5 |
| Net Cash Provided Financing Activities | (\$7.3) |
| Net Decrease in Cash | \$18.3 |
| Cash – Beginning of Year | \$6.2 |
| Cash End of the Year | \$24.5 |
| Investments on Hand – End of Year | \$6.0 |
| Total Cash, Cash Equivalents & Investments | \$30.5 |

Table 2-3 Summary of financial statements as at 30 June 2016 (Source: BMCC Audited Annual Financial Statements 2015-2016)

Current Financial Performance

We measure our financial performance against six local government and NSW Treasury Corporation (TCorp) financial performance indicators. The following graphs, Figure 2.4 Financial Performance Indicators, present our performance to date against prior year's performance as reported in the Annual Financial Statements.

We measure our asset infrastructure performance against three local government performance indicators. The following graphs, Figure 2-5 Asset Infrastructure Indicators, present our performance to date against prior year's performance as reported in the Annual Financial Statement Special Schedule 7.

While some of the results surpass the benchmark targets, a number demonstrate that we had, and will continue to have, significant challenges for managing long-term financial sustainability, managing asset infrastructure requirements, and to meet Fit for the Future requirements.



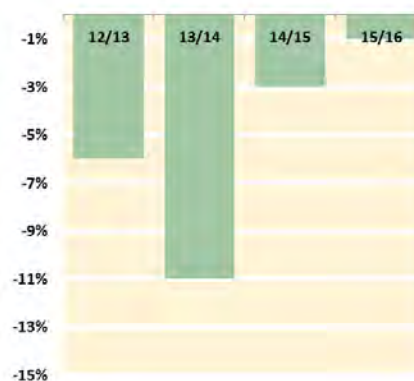
OPERATING PERFORMANCE RATIO

What Is Being Measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation) measured as a percentage

Calculation: Total operating revenue (excluding capital revenue) less total operating expenses (including depreciation costs) divided by total operating revenue (excluding capital revenue)

Target: Greater than or equal to breakeven

Comment: The continued implementation of the *Six Strategies for Financial Sustainability* and the Fit for the Future improvement actions, are the main factors resulting in the improvement of this ratio.



| Year | 12/13 | 13/14 | 14/15 | 15/16 |
|-------|-------|-------|-------|-------|
| Ratio | -6% | -11% | -3% | -1% |

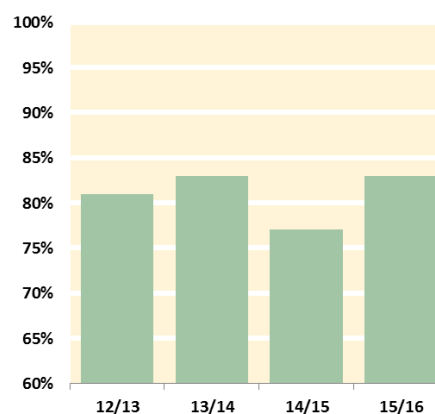
OWN SOURCE REVENUE RATIO

What Is Being Measured: This ratio measures fiscal flexibility. It shows the degree of reliance on external funding sources such as operating grants and contributions.

Calculation: Total operating revenue (excluding capital revenue) divided by total operating revenue

Target: Above 60%

Comment: This ratio is impacted by the amount of funding received from external sources and can vary from year to year. The ratio has been consistently above 75%, which exceeds the benchmark rate of > 60%, showing that the Council maintains an acceptable level of fiscal flexibility.



| Year | 12/13 | 13/14 | 14/15 | 15/16 |
|-------|-------|-------|-------|-------|
| Ratio | 81% | 83% | 77% | 83% |

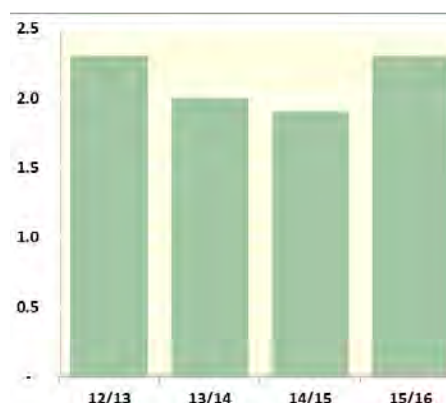
UNRESTRICTED CURRENT RATIO

What Is Being Measured: The adequacy of the Council's unrestricted working capital cash funds to meet short term unrestricted financial obligations as they fall due

Calculation: Ratio of unrestricted current assets divided by unrestricted current liabilities.

Target: Greater than a ratio of 1.5 : 1.0

Comment: The Council has adequate working capital funds to meet shorter term financial obligations as they fall due.



| Year | 12/13 | 13/14 | 14/15 | 15/16 |
|-------|-------|-------|-------|-------|
| Ratio | 2.3 | 2.0 | 1.9 | 2.3 |

DEBT SERVICE COVER RATIO

What Is Being Measured: The availability of Council's operating cash to service debt

Calculation: Operating result (excluding capital, interest and depreciation) divided by principal & interest loan payments

Target: More than a ratio of 2

Comment: The Council has the ability to service its debt but is below the acceptable benchmark level. Any further debt needs to comply with the Council's Borrowing Policy and long-term strategic approach to debt particularly in respect of the Council's capacity to service additional debt costs, and alternate funding sources should be considered first.



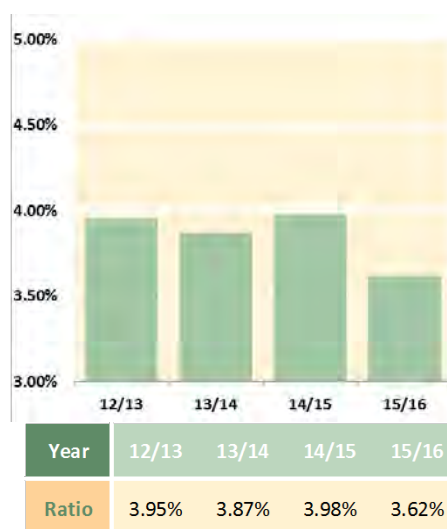
RATES, ANNUAL CHARGES, INTEREST & EXTRA CHARGES OUTSTANDING PERCENTAGE

What Is Being Measured: The impact of uncollected rates and annual charges on the Council's liquidity and the adequacy of debt recovery efforts

Calculation: Outstanding rates and annual charges as a percentage of collectible rates and annual charges

Target: Less than 5%

Comment: The target is currently being met and this result reflects that efficient credit management practices are being applied. It also indicates that a very high proportion of residents are managing to pay their rates on time and that residents have capacity to pay rates.



CASH EXPENSE COVER RATIO

What Is Being Measured: The number of months a Council can pay immediate expenses without additional cash flow.

Calculation: Current years cash and cash equivalents divided by payments from cash flow of operating and financing activities.

Target: Greater than a ratio of 3

Comment: The Council maintains a cash balance sufficient to pay its immediate expenses for a period in excess of 3 months, without the need for additional cash.



Figure 2-4 Financial performance indicators

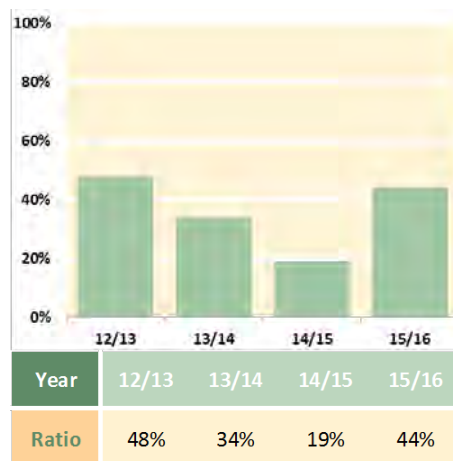
BUILDING AND INFRASTRUCTURE ASSET RENEWALS RATIO

What Is Being Measured: The Council's ability to fund the renewal of road, drainage and building assets relative to the amount of funding projected to be required from depreciation expenditure requirements

Calculation: Road, drainage and building asset renewal expenditure divided by depreciation expenditure

Target: Greater than 100% = Good; Less than 100% = Unsustainable

Comment: The Council is utilising Special Rate variation funds to increase expenditure on asset renewal. The Council's strategy will ensure that this Fit for the Future target is achieved.



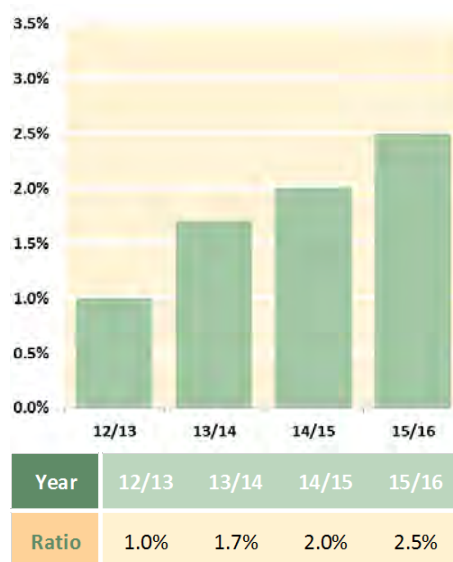
INFRASTRUCTURE BACKLOG RATIO

What Is Being Measured: This ratio shows what proportion the backlog of infrastructure renewal is against the total value of a Council's infrastructure

Calculation: Estimated cost to bring infrastructure assets to a satisfactory standard divided by the carrying value of infrastructure assets

Target: Less than 2%

Comment: The infrastructure backlog ratio has been increasing and will continue to increase until SRV funds are received and allocated to addressing the backlog.



ASSET MAINTENANCE RATIO

What Is Being Measured: If Council's actual asset maintenance matches required asset maintenance as determined by agreed levels of service.

Calculation: Actual asset maintenance divided by required asset maintenance.

Target: 100%

Comment: The Council is consistently maintaining an asset maintenance ratio close to 100% of the level identified in the Council's Asset management Plans.

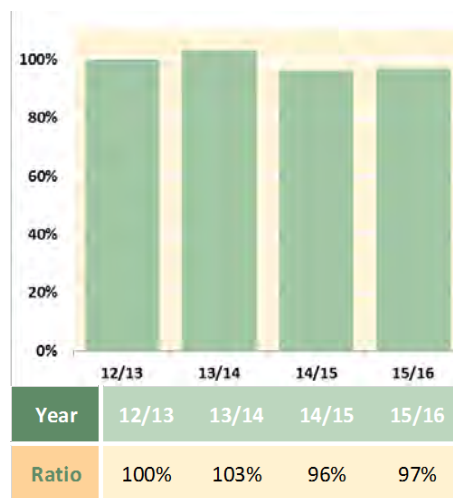


Figure 2-5 Asset Infrastructure indicators

Key constraints

It is important to note, that while long-term financial sustainability is the Council's goal, like most council's in NSW, this is challenging to achieve in the current environment due to:

- The scale of the infrastructure funding shortfall in maintenance and renewal funding for assets which has been below the required level resulting in deterioration in asset condition.
- The unique geographic, geomorphology, heritage and urban development characteristics of the City, which effectively results in:
 - Limited opportunity for new rating revenues because of constraints to urban expansion;
 - Costly management of world heritage and tourism;
 - Demand for increasing service levels, in line with resident expectations and access to facilities/services;
 - Costly management of bushfire risks;
 - Large asset portfolio due to number and spread of settlements; and
 - Low economies of scale in service delivery costs across low density, fragmented areas

Australian and NSW Government fiscal policy changes are a major factor in reaching financial sustainability. Key Australian and NSW Government policy issues that the *LTFP* must take into consideration are:

- Constrained rate revenue: for 37 years the NSW State Government has imposed rate pegging which limits the amount by which councils can increase their rate income in any given year, irrespective of the amount by which costs have actually increased. As a result, NSW councils have the lowest rates in Australia.

| 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 3.6 | 3.4 | 3.2 | 3.5 | 2.6 | 2.8 | 3.6 | 3.4 | 2.3 | 2.4 | 1.8 |

Table 2-6 Rate Peg variations from 2006-2007 to 2016-2017

- The impact of local government collecting approximately 3% of taxation revenue, but being responsible for 36% of non-financial assets held by all spheres of government; and
- Significant additional cost burdens from the continual shifting of responsibilities for service provision from the Australian and NSW Governments to local government, without corresponding funding. For example, in 2010-2011 the impact of cost shifting on Blue Mountains Council was estimated to be \$6.9M in additional expenditure requirements.

2.4 a council committed to financial sustainability

The Council was declared Fit for the Future by the State Government in 2015 on the basis that key targets for sustainability, service and infrastructure management and efficiency would be met by 2019-2020.

To address our financial challenges and achieve required Fit for the Future targets, the Council has developed a 10 year plan which will strengthen our financial capabilities and ensure we:

- Resource the continued implementation of the *Community Strategic Plan 2035*;
- Fund future asset maintenance and renewal requirements in accordance with the level identified as affordable by the *Asset Management Strategy* and the *Asset Management Plans*;
- Continue to balance our annual cash budget; and
- Continue to improve our annual operating result.

This plan involves the simultaneous implementation of the Council's *Six Financial Strategies for Financial Sustainability*.



Figure 2-7 below provides an overview of the key actions to be implemented under each of the six financial sustainability strategies.

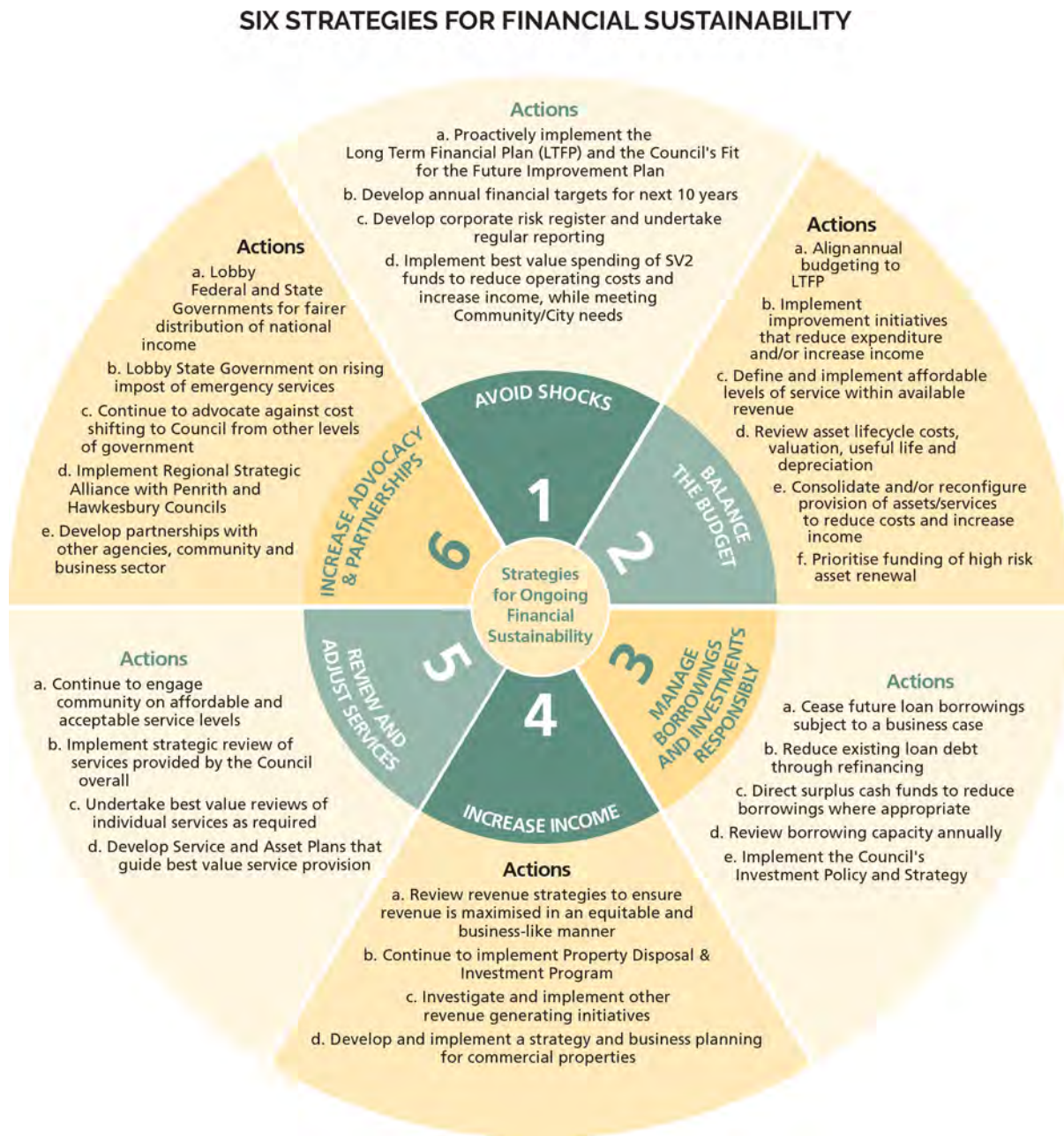


Figure 2-7 BMCC Six Strategies for Financial Sustainability

BMCC's Six Strategies for Financial Sustainability

Strategy 1 - Avoid shocks

The Council proactively implements financial planning to ensure we live responsibly within our means, manage risks and prioritise resources to achieve best outcomes.

The *LTFP* assesses the Council's revenue capacity and projects future costs. This strategy of avoiding shocks will be achieved by the Council proactively using the *LTFP* to manage and smooth projected increases in costs or decreases in revenue. This provides the Council with an opportunity for early identification of financial issues and longer-term impacts. It also helps the Council make strategic decisions based on these issues and impacts – with the aim of minimising unexpected events.

By managing and making appropriate adjustments for increases in costs or decreases in revenue, this strategy positions the City to better withstand costly unexpected events and to continue to deliver quality services that meet community needs. Examples of unexpected events include the devastating October 2013 bushfires and the 2015 to 2018 \$2.9M reduction in Federal Government Financial Assistance Grant funding to the Blue Mountains over four years from 2015 to 2018.

Strategy 2 - Balance the budget

For Council to live within its means and achieve financial sustainability the annual cash budget must be balanced and the annual operating budget positive, in alignment to Council's long term financial position. The Council's Operating Result should create a surplus that will provide the required level of funding for asset maintenance, renewal and replacement.

Council's cash budget equals all operating and capital revenue funds received less all the outgoing funds expenditures made during the year. Council's operating result equals only operating revenue less operating expenditure (including depreciation) and excludes all capital transactions.

Annual Cash budget

To ensure Council lives within its means in the short term, and that annual operations do not deplete financial reserves, Council balances its cash budget each year (i.e. expenditure is within available income). Given that costs are rising in real terms by 2% more than income, the Council is taking action to balance its budget every year, in alignment with its Long Term Financial Plan, through a continued commitment to cost containment and business efficiency.

Balanced budget positions are achieved through reducing debt, increasing revenue and adjusting services, as well as operating savings through continuous business improvement initiatives.

Cost containment involves the intentional actions to reduce the cost of labour and materials and review servicing requirements. Service levels and the assets required to support these services are reviewed to ensure available revenue is allocated optimally and achieves required improvements in all fit for the future measures. Services and assets are reconfigured and consolidated to reduce costs and increase income where possible and lifecycle costs of assets are optimised for best value allocation of funds.

Risks and consequences can arise with adjustments to service levels resulting from any decisions made affecting levels of investment in the maintenance and renewal of assets. Identified risks and

consequences need to be managed in accordance with the risk management plans forming part of the Asset Management Plans and through the Council's corporate risk management processes.

Annual Operating Result (including depreciation, excluding capital grants)

Council has a strategy to balance the annual operating result and in future target operating surpluses that will provide the required level of funding for optimal lifecycle costs of assets including maintenance, renewal and replacement.

The Council can only be sustainable if its operating revenues cover operating costs (including depreciation excluding capital grants). Council has historically operated with an operating deficit and through implementation of Councils Six Strategies for Financial Sustainability Council is now able to project operating surpluses.

A number of strategies contribute to the improvements to Councils projected operating surplus, including;

- An increase in operating income from special rates variation funds that are partly being allocated to capital expenditure,
- A review of asset useful lives and residual values that result in reductions in depreciation
- Projected increases in operational income from a user pays strategy

Strategy 3 - Manage borrowings and investments responsibly

Council has a number of internally and externally restricted funds that are invested according to Councils Investment Policy and Strategy. At 30 June 2016 Council had \$30.5M in cash and investments with the majority of funds held at very low risk in short and long term deposits. This strategy focuses on ensuring investments are optimally managed and returns are maximised within an appropriate risk framework.

While the Council's debt service financial indicator (i.e. the degree of revenue from continued operations committed to the repayment of debt) is within the industry benchmark, our financial planning has identified that we have reached our capacity to incur debt. That is, our available revenue is insufficient to support any further loan interest and principal repayments. As a result, this strategy focuses on minimising future borrowings and reducing existing debt.

The Council's Long Term Financial Planning has included reviewing the Council's loan borrowings to better support the City's requirements and financial sustainability. The implementation of this strategy has included ceasing new loan borrowings subject to annual reviews of the financial capacity of the Council unless:

- The proposed new borrowing is supported by a comprehensive business case and resolved by the Council;
- The cost of debt is able to be funded from sufficient income or cost savings generated by the project; and
- Financially subsidised loan funding is available and is resolved by Council to be used.

In addition, the Council has committed to reducing its debt position by directing any surplus cash funds to reducing borrowings wherever it is effective to do so. The *LTFP* also recommends reducing existing debt liabilities by reviewing existing interest rate terms and conditions and renegotiating

these through organisations like Western Sydney Regional Organisation of Councils (WSROC). This would further reduce the projected outstanding loan balance.

As shown in *Figure 2-9*, this strategy is projected to bring the borrowing balance down from \$38.7M in 2016-2017 to less than \$8M in 2025-2026. As demonstrated with the faded bars in the graph, this is over \$9Mpa less than projected previously in the 2014-2024 Resourcing Strategy. Significant reductions are due to a number of actions including unanticipated savings being used to reduce debt.

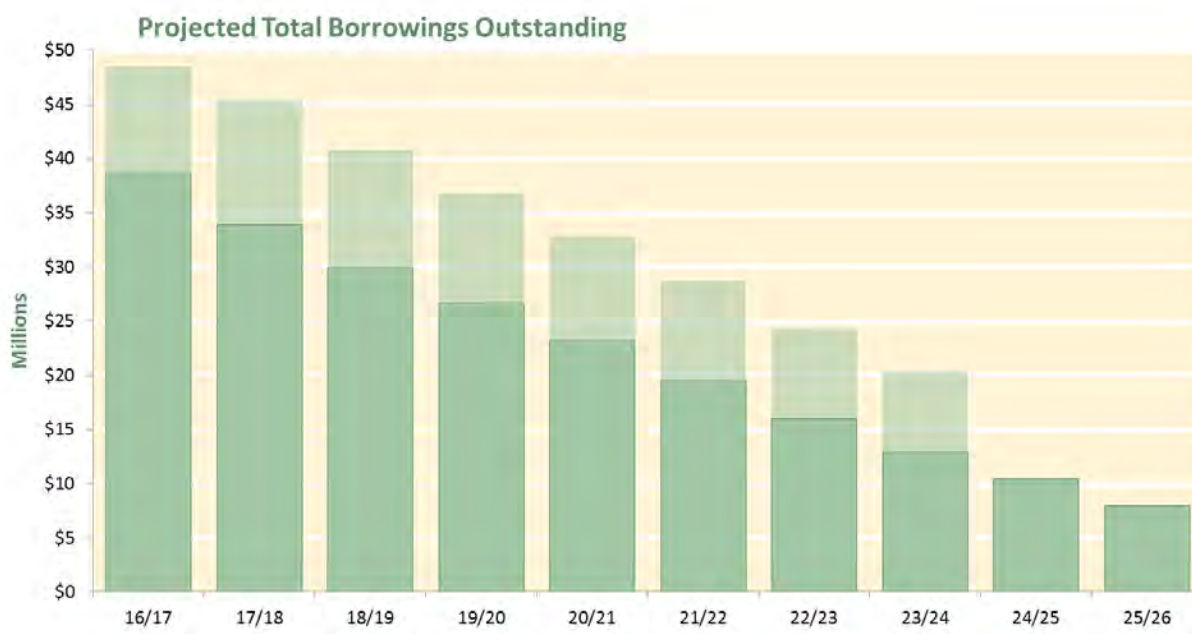


Figure 2-9 Total borrowings outstanding 2016-2026

After a period of consolidation of approximately ten years, the Council will be once again in a position to reconsider further borrowings. The Council may then decide to borrow additional funds, which it can use to:

- Meet the changing needs of the City that affect levels of service and associated asset support:
- Address any infrastructure failures/risks from the *Asset Management Strategy/Plans* if required; and/or
- Fund asset renewal if our long-term planning determines this as appropriate and financially responsible.

Such future borrowings will only be undertaken for one-off major projects where there is no other funding option and the period of debt repayment will not exceed the period over which the project benefits are received or the life of the asset – whichever is the lesser.

Strategy 4 - Increase income

For long-term financial sustainability and funding of the infrastructure shortfall it is essential that the Council increases its income to meet increasing costs and fully fund asset maintenance and renewal requirements. While it is prudent that the Council maximises all current and future revenue streams to fulfil the community needs, this must be balanced against socio-economic realities and principles of fairness and affordability.

For every dollar residents pay in rates, the Council at least matches it with revenue from such sources such as grants, commercial activities (e.g. Caravan Parks and Visitor Information Centre's) and from fees and charges. Residents are currently subsidising an increasing amount of visitor use of services and facilities in the City and a user pays strategy is being developed to manage this.

While increasing income is limited due to rate pegging and limited growth opportunities, initiatives for increasing income range from seeking external grants, setting appropriate levels for fees and charges, achieving sound financial returns from Council's commercial activities (for example commercial property and caravan parks) and engaging the community on possible rate increases to support required levels of service.

The Council has given a major focus to achieving other sources of revenue to support needed community infrastructure projects. Some examples where the Council has been successful in obtaining significant additional external revenue funding include:

- | | |
|---|--------|
| • Blue Mountains Theatre and Community Hub | \$9.5M |
| • Blue Mountains Business Park in Lawson | \$3.5M |
| • Blue Mountains Cultural Centre, New Katoomba Library & Civic Centre | \$5.0M |
| • Lawson Town Centre | \$5.9M |
| • NSW Building Partnership Infrastructure Funding | \$2.5M |

Strategy 4 has resulted in Council implementing a two-staged approach to increasing revenue through special rate variations phased in gradually over time, and taking into account community capacity and willingness to pay increased rates to achieve desired levels of service provision. Additional income from special variations to rates is projected to make a substantial improvement to Councils forecasted financial performance as measured by the fit for the future ratios, but Council still faces the challenge of costs rising faster than income and a substantial amount of ageing built assets to manage.

No additional special variations to rates have been projected in this resourcing strategy, and focus is now on a number of other actions and initiatives to increase income. Council's revenue strategies are regularly reviewed to develop financial strategies to ensure that revenue is maximised in an equitable as well as a business-like manner. Any review of the Council's revenue strategies will consider any impacts on the community and will also involve engagement with the community.

Summary of Special variation to rates

Rates are the most reliable source of any council's income. The Office of Local Government notes that applications to IPART to vary rates above the approved annual rate peg are a valid solution to financial sustainability, because they are:

"....an important means of providing additional funding to councils in delivering services and infrastructure that the community has requested and the council is unable to fund within its existing revenue."

Each year approximately 25 councils in NSW apply for a special variation, the majority seeking additional funding to address infrastructure backlogs.

Council developed a two-staged Strategy to a special variation to rates which was previously publically exhibited (with no adverse community response) and adopted for implementation in June 2013 as part of the 2013-2023 Resourcing Strategy. This two-staged approach was made in order to:

- Minimise the impacts of the reform of its rating structure on ratepayers
- Coincide with the expiry of the existing ten year Environment Levy
- Better align with the Council's planning cycle, and
- Phasing the rate increases over a period of four years to minimize the impact of increased rates on ratepayers.

Stage 1 – Renewal of existing s508(2) Special Variation for Infrastructure

Current revenue projections within this *LTFP* include the additional income being raised from the renewal of an existing special variation, which was approved by IPART in June 2013. This variation replaced the program of annually borrowing at least \$2.3M to fund asset maintenance and renewal works and by 2023 it will raise \$23M in revenue. Stage 1 was achieved in 2013 with community endorsement for continuing an existing special variation to rates.

Stage 2 – Further Application to IPART

In summary, the second stage of this approach included engaging the community in 2015 to improve the Council's financial position, address the critical funding shortfall for renewal and maintenance of the City's \$1 B worth of built assets (including roads, footpaths, storm water drainage, emergency management infrastructure, community and recreational facilities such as parks, ovals, pools, libraries and child care centres) and enable continuation of an existing Environment Levy (due to expire in June 2015) that has been funding the protection and restoration of approximately 10,000 ha of bushland and water ways. Stage 2 was achieved in 2015 with community endorsement for an additional special variation to rates.

Strategy 5 – Review and adjust service levels in consultation with community

This strategy involves the Council implementing ongoing and targeted service reviews to ensure best value service provision to the community. It also involves reviewing the relative mix of services that Council provides and the level of assets required to deliver the services.

The *"Blue Mountains City Council Service Framework – Guidelines for Achieving Best Value Service that Meet Community Needs"* (adopted in June 2013 and updated in 2015), outlines key service provision principles and guidelines for the planning and review of Council services. The framework aims to ensure that within available resources the Council provides the best range of quality "value for money" services that meet the needs of the most number of residents and visitors to the City.

Given the Council's financial challenges, it is important that there are processes in place that ensure available resources are effectively and transparently targeted in consultation with the community, and in a way that best addresses identified risks and assessed needs. The planning and review of services, also aims to ensure that service delivery is relevant to the changing needs of the community and to identify opportunities for innovative, responsive and quality service provision.

Examples of service areas reviewed include the review of the bulky waste collection service resulting in a shift to a more responsive booked service and review of the Council's Caravan Parks resulting in increased revenue and the Sealing of Unsealed Roads Program resulting in significant ongoing cost savings and improved service delivery.

Strategy 6 – Increase advocacy and partnerships

This strategy involves advocating to other levels of government for a fair share of funding and reduced cost shifting, and building partnerships with others to achieve positive outcomes for the Blue Mountains. This is particularly important given the characteristics and challenges of the Blue Mountains such as its location adjacent to a World Heritage Listed National Park and its significance as a major Australian and International tourist destination.

Such advocacy can be achieved through local members, the Local Government Association, neighbouring council partnerships such as the Regional Strategic Alliance with Penrith and Hawkesbury Councils and WSROC, and through submissions to the various local government inquiries.

The potential for additional revenue from this strategy is quite significant. Examples of the Council's previous success with this include the \$9.5M Federal Government grant for Springwood Cultural Facilities Upgrade, the Blue Mountains Cultural Centre public/private partnership and almost \$2M from the Federal and State Governments to help our community recover from the impacts of the 2013 bushfire events.

Developing partnerships with other organisations and with the community and business sectors is also a key focus of this strategy. Some examples of where the Council has assisted others in advocacy and partnership initiatives include:

- Blue Mountains Economic Enterprise;
- The Stronger Families Alliance;
- Gully Cooperative Agreement;
- Reconnecting to Country project;
- Domestic Squalor Information Package & Blue Mountains Homelessness Forum;
- Bicentenary of the Crossing event;
- Emergency Management services with SES and RFS.

An achievement of Strategy 6 also includes the Council's work following the October 2013 bushfire disaster where the Council's advocacy ensured safe and appropriate disposal of fire impacted waste outside the City and successfully achieved \$1.8M in grant funding from the State Government to support recovery. The Council actively worked in partnership with NSW Government, NSW RFS and a range of agencies and organisations during the response and in the recovery phase.

2.5 long term financial plan

The LTFP process has developed a financial plan with various revenue and expenditure assumptions over the 10 year of the plan. The rationale for this plan was a longer-term consideration of the following:

- Extent of our financial challenges, particularly costs rising faster than the Council's ability to increase revenue
- Level of, and risks around, the built and natural asset infrastructure backlogs
- Our ability to provide the services our community needs and expects based on existing revenue streams
- Meeting Fit for the Future requirements

Key Financial Statements

Long Term Financial Plans are inherently uncertain as they contain a wide range of assumptions over an uncertain period of 10 years and projected increases in revenue and expenditure are averaged over the 10 years. The summaries that follow therefore also include a sensitivity analysis that tests key revenue and expenditure assumptions, which if inaccurate, could have moderate to significant impacts on the Council's LTFP.

There are a number of assumptions, as well as improvements from implementation of the *Six Strategies for Financial Sustainability*, integrated into the plan that rely on actions to ensure improvements are realised. Revenue and expenditure assumptions and forecasts are outlined in detail in section 2.8. Two of the main categories impacted by assumptions include:

- Increased User Charges and Fees from implementation of a user pays strategy for visitors
- Reduced depreciation from optimal lifecycle costing of assets including a review of useful lives and residual values

The key financial statements are summarised in the following tables.

Summary of Profit & Loss Statement (\$'000)

| | Projected Years | | | | | | | | | |
|--|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Operating Income | | | | | | | | | | |
| Revenue: | | | | | | | | | | |
| Rates & Annual Charges | 67,837 | 73,564 | 79,812 | 82,082 | 84,426 | 86,847 | 89,347 | 91,406 | 93,885 | 96,692 |
| User Charges & Fees | 18,047 | 18,467 | 19,296 | 19,736 | 20,186 | 20,647 | 21,120 | 21,604 | 22,100 | 22,608 |
| Interest & Investment Revenue | 1,084 | 1,131 | 1,157 | 1,163 | 1,159 | 1,155 | 1,151 | 1,147 | 1,143 | 1,148 |
| Other Revenues | 2,833 | 2,921 | 2,994 | 3,069 | 3,145 | 3,224 | 3,304 | 3,382 | 3,463 | 3,550 |
| Grants & Contributions for Operating Purposes | 13,962 | 14,144 | 13,831 | 14,158 | 14,495 | 14,842 | 15,200 | 15,576 | 15,991 | 16,444 |
| Grants & Contributions for Capital Purposes | 1,876 | 2,509 | 1,180 | 102 | 102 | 102 | 102 | 102 | 102 | 102 |
| Net gains from the disposal of assets | 250 | 256 | 263 | 269 | 276 | 283 | 290 | 297 | 305 | 312 |
| Total Operating Income | 105,890 | 112,992 | 118,532 | 120,579 | 123,789 | 127,099 | 130,513 | 133,514 | 136,988 | 140,855 |
| Operating Expenses | | | | | | | | | | |
| Employee Benefits & On-Costs | 51,214 | 52,413 | 54,331 | 56,395 | 58,564 | 61,102 | 63,750 | 66,511 | 69,391 | 72,394 |
| Borrowing Costs | 2,604 | 2,279 | 1,941 | 1,758 | 1,576 | 1,398 | 1,194 | 977 | 807 | 676 |
| Materials & Contracts | 23,048 | 23,431 | 26,982 | 27,763 | 29,100 | 29,525 | 30,524 | 30,960 | 31,025 | 31,459 |
| Depreciation & Amortisation | 16,000 | 16,500 | 16,000 | 15,500 | 15,000 | 14,500 | 15,000 | 15,500 | 16,000 | 16,500 |
| Other Expenses | 14,962 | 15,420 | 15,774 | 16,215 | 16,743 | 17,149 | 17,644 | 18,157 | 18,742 | 19,267 |
| Total Operating Expenses | 107,828 | 110,042 | 115,028 | 117,631 | 120,983 | 123,675 | 128,111 | 132,104 | 135,964 | 140,297 |
| Net Operating Result for the Year | (1,938) | 2,950 | 3,505 | 2,947 | 2,805 | 3,424 | 2,402 | 1,410 | 1,023 | 558 |
| Net Operating Result before Capital Grants & Contributions and before Net gains from disposal of assets | (4,064) | 185 | 2,063 | 2,576 | 2,427 | 3,039 | 2,010 | 1,010 | 617 | 144 |

Table 2-10 Profit and Loss Statement 2016-2026

Summary of Cash Flow Statement (\$'000)

| | Projected Years | | | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash Flows from Operating Activities | | | | | | | | | | |
| Receipts: | | | | | | | | | | |
| Rates & Annual Charges | 67,620 | 73,362 | 79,592 | 82,002 | 84,344 | 86,762 | 89,259 | 91,334 | 93,797 | 96,593 |
| User Charges & Fees | 18,047 | 18,467 | 19,296 | 19,736 | 20,186 | 20,647 | 21,120 | 21,604 | 22,100 | 22,608 |
| Interest & Investment Revenue Received | 1,043 | 1,090 | 1,123 | 1,153 | 1,141 | 1,134 | 1,129 | 1,142 | 1,134 | 1,128 |
| Grants & Contributions | 15,871 | 16,635 | 15,041 | 14,274 | 14,590 | 14,937 | 15,295 | 15,671 | 16,085 | 16,537 |
| Other | 4,244 | 2,914 | 3,025 | 3,058 | 3,118 | 3,196 | 3,276 | 3,350 | 3,433 | 3,519 |
| Payments: | | | | | | | | | | |
| Employee Benefits & On-Costs | (51,214) | (52,413) | (54,331) | (56,395) | (58,564) | (61,102) | (63,750) | (66,511) | (69,391) | (72,394) |
| Materials & Contracts | (23,061) | (23,291) | (26,399) | (27,562) | (28,804) | (29,379) | (30,280) | (30,792) | (30,899) | (31,289) |
| Borrowing Costs | (2,642) | (2,308) | (1,966) | (1,780) | (1,597) | (1,417) | (1,209) | (990) | (817) | (687) |
| Other | (14,962) | (15,420) | (15,774) | (16,215) | (16,743) | (17,149) | (17,644) | (18,157) | (18,742) | (19,267) |
| Net Cash flow from Operating Activities | 14,946 | 19,037 | 19,607 | 18,271 | 17,671 | 17,630 | 17,196 | 16,650 | 16,701 | 16,748 |
| Cash Flows from Investing Activities | | | | | | | | | | |
| Receipts: | | | | | | | | | | |
| Sale of Investment Securities | 328 | 1,884 | 1,951 | 1,015 | 85 | - | - | 1,010 | 1,614 | 284 |
| Sale of Infrastructure, Property, Plant & Equip | 3,911 | 3,842 | 2,342 | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 | 1,592 |
| Payments: | | | | | | | | | | |
| Purchase of Infrastructure, Property, Plant & Equip | (12,209) | (19,362) | (19,231) | (16,787) | (15,647) | (15,610) | (15,465) | (17,341) | (18,099) | (16,725) |
| Net Cash flow from Investing Activities | (7,970) | (13,636) | (14,938) | (14,180) | (13,970) | (14,018) | (13,873) | (14,739) | (14,892) | (14,849) |
| Cash Flows from Financing Activities | | | | | | | | | | |
| Receipts: | | | | | | | | | | |
| Proceeds from Finance Leases | 70 | 50 | - | - | 152 | 55 | - | - | 85 | 146 |
| Payments: | | | | | | | | | | |
| Repayment of Borrowings & Advances | (7,035) | (5,426) | (4,640) | (4,060) | (3,822) | (3,396) | (2,884) | (2,505) | (1,868) | (2,005) |
| Repayment of Finance Lease Liabilities | (12) | (25) | (30) | (32) | (31) | (36) | (38) | (41) | (27) | (40) |
| Net Cash Flow from Financing Activities | (6,976) | (5,401) | (4,670) | (4,091) | (3,702) | (3,377) | (2,922) | (2,546) | (1,809) | (1,899) |
| Cash & Investments - end of the year | 18,396 | 16,512 | 14,561 | 13,546 | 13,462 | 13,696 | 14,097 | 12,452 | 10,838 | 10,554 |
| Representing: | | | | | | | | | | |
| - External Restrictions | 6,669 | 6,299 | 5,929 | 5,559 | 5,564 | 5,569 | 5,574 | 5,579 | 5,584 | 5,589 |
| - Internal Restrictions | 11,759 | 10,957 | 9,574 | 9,405 | 9,749 | 10,573 | 11,475 | 10,385 | 9,588 | 10,109 |
| - Unrestricted | (31) | (744) | (941) | (1,417) | (1,851) | (2,446) | (2,952) | (3,512) | (4,334) | (5,144) |
| | 18,396 | 16,512 | 14,561 | 13,546 | 13,462 | 13,696 | 14,097 | 12,452 | 10,838 | 10,554 |

Table 2-11 Cash Flow Statement 2016-2026

Summary of Balance Sheet Statement (\$'000)

| | Projected Years | | | | | | | | | |
|---|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| ASSETS | | | | | | | | | | |
| Current Assets | | | | | | | | | | |
| Cash & Cash Equivalents | - | - | - | - | - | 235 | 635 | - | - | - |
| Investments | 18,396 | 16,512 | 14,561 | 13,546 | 13,462 | 13,462 | 13,462 | 12,452 | 10,838 | 10,554 |
| Receivables | 5,408 | 5,734 | 5,993 | 6,106 | 6,266 | 6,433 | 6,607 | 6,747 | 6,909 | 7,099 |
| Inventories | 442 | 449 | 517 | 532 | 558 | 566 | 585 | 594 | 595 | 603 |
| Other | 359 | 367 | 404 | 415 | 433 | 441 | 455 | 464 | 470 | 479 |
| Non-current assets "held for sale" | 2,679 | 2,679 | 2,679 | 2,679 | 2,679 | 2,679 | 2,679 | 2,679 | 2,679 | 2,679 |
| Total Current Assets | 27,284 | 25,740 | 24,154 | 23,278 | 23,397 | 23,815 | 24,423 | 22,935 | 21,491 | 21,413 |
| Non-Current Assets | | | | | | | | | | |
| Infrastructure, Property, Plant & Equip | 827,100 | 826,376 | 827,528 | 827,491 | 826,822 | 826,622 | 825,785 | 826,331 | 827,142 | 826,087 |
| Investments (using the equity method) | 2,757 | 2,757 | 2,757 | 2,757 | 2,757 | 2,757 | 2,757 | 2,757 | 2,757 | 2,757 |
| Investment Property | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 |
| Total Non-Current Assets | 838,319 | 837,595 | 838,747 | 838,710 | 838,041 | 837,841 | 837,004 | 837,550 | 838,361 | 837,306 |
| TOTAL ASSETS | 865,603 | 863,336 | 862,901 | 861,989 | 861,438 | 861,657 | 861,427 | 860,485 | 859,851 | 858,719 |
| LIABILITIES | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | |
| Payables | 8,921 | 9,105 | 9,835 | 10,067 | 10,413 | 10,585 | 10,875 | 11,070 | 11,222 | 11,431 |
| Borrowings | 5,443 | 4,670 | 4,091 | 3,841 | 3,423 | 2,922 | 2,546 | 1,894 | 2,035 | 2,198 |
| Provisions | 13,062 | 13,062 | 13,062 | 13,062 | 13,062 | 13,062 | 13,062 | 13,062 | 13,062 | 13,062 |
| Total Current Liabilities | 27,427 | 26,837 | 26,989 | 26,971 | 26,899 | 26,569 | 26,483 | 26,027 | 26,320 | 26,691 |
| Non-Current Liabilities | | | | | | | | | | |
| Borrowings | 33,444 | 28,816 | 24,725 | 20,884 | 17,600 | 14,724 | 12,177 | 10,283 | 8,333 | 6,271 |
| Provisions | 1,539 | 1,539 | 1,539 | 1,539 | 1,539 | 1,539 | 1,539 | 1,539 | 1,539 | 1,539 |
| Total Non-Current Liabilities | 34,983 | 30,355 | 26,263 | 22,423 | 19,139 | 16,262 | 13,716 | 11,821 | 9,872 | 7,809 |
| TOTAL LIABILITIES | 62,409 | 57,192 | 53,252 | 49,393 | 46,037 | 42,832 | 40,199 | 37,848 | 36,191 | 34,501 |
| Net Assets | 803,194 | 806,144 | 809,648 | 812,596 | 815,401 | 818,825 | 821,227 | 822,637 | 823,660 | 824,218 |
| EQUITY | | | | | | | | | | |
| Retained Earnings | 377,774 | 380,724 | 384,228 | 387,176 | 389,981 | 393,405 | 395,807 | 397,217 | 398,240 | 398,798 |
| Revaluation Reserves | 425,420 | 425,420 | 425,420 | 425,420 | 425,420 | 425,420 | 425,420 | 425,420 | 425,420 | 425,420 |
| Council Equity Interest | 803,194 | 806,144 | 809,648 | 812,596 | 815,401 | 818,825 | 821,227 | 822,637 | 823,660 | 824,218 |
| Total Equity | 803,194 | 806,144 | 809,648 | 812,596 | 815,401 | 818,825 | 821,227 | 822,637 | 823,660 | 824,218 |

Table 2-12 Balance Sheet Statement 2016-2026

Summary of Plan

The Council can continue to meet its short-term financial obligations and in the long-term its financial position is healthy. By 2019-2020 the Operating Result achieves a 3 year average surplus.

There is improvement in most key financial performance measures (particularly the Operating Result), but with a need to continue addressing built asset funding shortfall.

Sensitivity Analysis

Sensitivity analysis has determined the most likely variations in assumptions that could affect the plan. It is possible that revenue could increase by \$1,034k (i.e. up to 0.7% of total revenue) or expenditure could decrease by \$958k (i.e. up to 0.7% of total expenditure). In either of these events, the Council would apply the favourable outcome towards asset renewal and maintenance requirements and/or reducing Council's debt to improve future borrowing capacity.

Alternatively revenue could decrease by \$1,022 (i.e. up to 0.7% of total revenue) or expenditure could increase by \$971k (i.e. up to 0.7% of total expenditure). In either of these events, the Council would manage the unfavourable outcome by reducing and rebalancing service levels to address priority risks.

The following table shows the projected annual impact of each of these possible events.

| Sensitivity Analysis | | % | | | | | | | | | | |
|----------------------------|--------|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | | Sensitivity Adjustment | 2016/17 \$000 | 2017/18 \$000 | 2018/19 \$000 | 2019/20 \$000 | 2020/21 \$000 | 2021/22 \$000 | 2022/23 \$000 | 2023/24 \$000 | 2024/25 \$000 | 2025/26 \$000 |
| Increase: | | | | | | | | | | | | |
| Rates (inc Growth) Revenue | 0.2% | - | - | 7 | 134 | 267 | 407 | 553 | 706 | 866 | 1,034 | |
| Decrease: | | | | | | | | | | | | |
| Rates (inc Growth) Revenue | (0.2%) | - | - | (7) | (134) | (267) | (405) | (550) | (700) | (858) | (1,022) | |
| Increase: | | | | | | | | | | | | |
| Employment Expenditure | (0.2%) | - | - | (92) | (192) | (299) | (415) | (540) | (674) | (817) | (971) | |
| Decrease: | | | | | | | | | | | | |
| Employment Expenditure | 0.2% | - | - | 92 | 192 | 298 | 413 | 536 | 667 | 808 | 958 | |

Table 2-14 Sensitivity Analysis 2016-2026



2.6 fit for the future action plan

SIX STRATEGIES FOR FINANCIAL SUSTAINABILITY DELIVERS FIT FOR THE FUTURE RESULTS



fit for the future measures

scale and capacity ✓

financially sustainable ✓

effective services and infrastructure ✓

efficient ✓

To drive achievement of these Fit for the Future measures, a four year Fit for the Future Action Plan has been developed as part of the Six Strategies for ongoing Financial Sustainability. These actions are reflected in the four year Delivery Program and one year operational plan actions. The action plan will deliver on the Councillor strategic priorities and the Community Strategic Plan objectives. This action plan is shown in the following tables.

The four year FFtF Action Plan 2017-2021 is guided by the Six Strategies for Financial Sustainability. All strategies presented in the original FFtF Improvement Action Plan 2016-2017 are now covered by the Six Strategies for Financial Sustainability and their associated 10 year actions. The reorganisation of original FFtF strategies and their realignment to the Six Strategies for Financial Sustainability presents a more streamlined and efficient reporting process for Council. In addition, each of the FFtF four year actions have one year actions that have been integrated into the Council's Delivery Program 2017-2021 and Operational Plan 2017-2018.

Fit for the Future Action Plan 2017-2021

1. Avoid Shocks

| Ref. | Six Strategies 10 year Actions | Fit for the Future 4 year Actions | Delivery Program - Operational Plan 1 year Actions |
|------|--|---|--|
| 1a | Proactively implement the Long Term Financial Plan and the Council's Fit for the Future Improvement Plan | Achieve Fit for the Future ratios in 2019/2020, then maintain or improve ratios | Drive implementation of the Council's Six Strategies for Financial Sustainability (DPOP 1.1.a) |
| 1b | Develop annual financial targets for the next 10 years | Set annual Fit for the Future targets for 2017/2018 to 2019/2020 | LTFP communication plan developed and implemented (DPOP 1.2.a) |
| 1c | Develop Corporate Risk Register and undertake regular reporting | Develop Corporate Risk Register to target high risk renewal expenditure | Implement an organisational risk-based approach to policy review and development (DPOP 1.2.c) |
| 1d | Implement best value spending of SV2 funds to reduce operating costs and increase income, while meeting Community/City needs | Implement best value spending of SV2 funds to meet Fit for the Future ratios | Deliver initiative to ensure that the expenditure of SV2 and other Council funds reduces long term costs and increases income (DPOP 1.1.a) |

2. Balance the Budget

| Ref. | Six Strategies 10 year Actions | Fit for the Future 4 year Actions | Delivery Program - Operational Plan 1 year Actions |
|------|--|---|--|
| 2a | Align annual budgeting to LTFP | Align decision making to LTFP plan to achieve a positive operating performance ratio | Strengthen alignment of budgeting to LTFP (DPOP 1.1.a) |
| 2b | Implement improvement initiatives that reduce expenditure and/or increase income | Implement improvement initiatives to achieve decreasing operating expenditure per capita | Establish a Business Improvement Program Office and develop a Business Improvement Business Plan (DPOP 1.1.b) Promote electronic delivery of all rating correspondence (DPOP 1.1.b) |
| 2c | Define and implement affordable levels of service within available revenue | Model, define and review affordable levels of service within available revenue to improve operating performance ratio | Scheduled to commence in 2019-2020 (DPOP 1.3.a) |

| | | | |
|-----------|---|---|--|
| 2d | Review asset lifecycle costs, valuation, useful life and depreciation | Improve asset lifecycle costs to improve the asset renewal and asset maintenance ratios | Review the Council's depreciation and useful life assessment, including civic infrastructure review (DPOP 1.1.a) |
| | | | Review integration of the Asset Register and Asset Management Plans (DPOP 1.1.a) |
| | | | Implement the Asset Management Improvement Program (DPOP 1.3.b) |
| 2e | Consolidate and/or reconfigure provision of assets/services to reduce costs and increase income | Consolidate and/or reconfigure provision of assets/services to improve asset renewal and asset maintenance ratios | Implement a strategic review of service levels (DPOP 1.3.a) |
| 2f | Prioritise funding of high risk asset renewal | Prioritise funding of high risk asset renewal to reduce infrastructure backlog ratio | Educate key staff in risk management (DPOP 1.2.c) |

3. Manage Debt and Investments Responsibly

| Ref. | Six Strategies 10 year Actions | Fit for the Future 4 year Actions | Delivery Program - Operational Plan 1 year Actions |
|-----------|--|---|---|
| 3a | Cease future loan borrowings unless supported by business case | Cease future loan borrowings unless supported by business case to improve debt servicing ratio | Review and update Borrowings Policy, review loan financing, reduce borrowings with available funds (DPOP 1.1.a) |
| 3b | Reduce existing loan debt through refinancing | Reduced operating expenditure requirements that improve debt servicing and operating performance ratios | |
| 3c | Direct surplus cash funds to reduce borrowings where appropriate | Further reduce borrowings to improve borrowing capacity, reduce debt servicing costs and improve debt servicing ratio | |
| 3d | Review borrowing capacity annually | Review borrowing capacity annually to ensure staying within debt servicing benchmark | |
| 3e | Implement the Council's Investment Policy and Strategy | Manage Investments to maximise returns and achieve positive operating performance ratio | Review and update Investments Policy (DPOP 1.1.a) |

4. Increase Income

| Ref. | Six Strategies 10 year Actions | Fit for the Future 4 year Actions | Delivery Program - Operational Plan 1 year Actions |
|------|---|--|---|
| 4a | Review revenue strategies to ensure revenue is maximised in an equitable and business-like manner | Review revenue strategies to maximise revenue to achieve positive operating performance ratio and improve own source revenue ratio | Update Revenue Strategies (DPOP 1.1.a) |
| 4b | Continue to implement Property Disposal and Investment Program | Increase income from Property Disposal and Investment Program to achieve positive operating performance ratio and improve own source revenue ratio | Update Property disposal and investment program (DPOP 1.1.a) |
| 4c | Investigate and implement other revenue generating initiatives | Increase revenue generating initiatives to achieve positive operating performance ratio and improve own source revenue ratio | Develop the Visitor User Pay Strategy including possible expansion of paid parking (DPOP 6.4.a) Develop the Campgrounds Investment and Management Plan including the investigation of user pays (DPOP 6.4.a) |
| 4d | Develop and implement a strategy and business planning for commercial activities | Increase income from commercial activities to achieve positive operating performance ratio and improve own source revenue ratio | Conduct a review of current operations of Council owned tourist parks (DPOP 6.3.a) |

5. Review and Adjust Services

| Ref. | Six Strategies 10 year Actions | Fit for the Future 4 year Actions | Delivery Program - Operational Plan 1 year Actions |
|------|--|---|---|
| 5a | Continue to engage community on affordable and acceptable service levels | Define service levels in 2019-2020 to improve operating performance and infrastructure backlog ratios | Commence review and update of service dashboards community engagement tool - defining affordable levels of service (DPOP 1.2.b) |
| 5b | Implement strategic review of services provided by the Council overall | Strategic review of services improves operating performance ratio | Undertake a strategic review of services to inform future decision making (DPOP 1.3.a) |
| 5c | Undertake best value reviews of individual services as required | Individual service reviews reduce expenditure to improve operating performance ratio | Progress implementation of the BMCC Service Framework 2015-2019 Guidelines for achieving Best Value Services (DPOP 1.3.a) |

| | | | |
|-----------|---|--|---|
| 5d | Develop and align Service and Asset Plans that guide best value service provision | Develop financial projections for each service by 2018-2019 to ensure LTFP can be achieved and so can a positive operating performance ratio | Service reporting is further developed to improve planning, review and management of service budgets (DPOP 1.3.a) |
|-----------|---|--|---|

6. Increase Advocacy and Partnerships

| Ref. | Six Strategies 10 year Actions | Fit for the Future 4 year Actions | Delivery Program - Operational Plan 1 year Actions |
|-----------|---|---|--|
| 6a | Lobby Federal and State Governments for fairer distribution of national income | Lobby to increase income and improve operating performance ratio | Create an annual advocacy and partnership plan (DPOP 1.1.a) |
| 6b | Lobby State Government on rising impost of emergency services | Lobby to minimise expenditure increases and improve operating performance ratio | Renegotiate Service Level Agreements with the Rural Fire Service and State Emergency Service (DPOP 3.3.b) |
| 6c | Continue to advocate against cost shifting to Council from other levels of Government | Advocate against expenditure increases and improve operating performance ratio | Prepare the Priority Infrastructure Plan with input from state and other agencies (DPOP 1.4.a) |
| 6d | Implement Regional Strategic Alliance with Penrith and Hawkesbury Councils | Implement Regional Strategic Alliance to achieve enhanced advocacy and regional planning outcomes reduce operating expenditure per capita | Implement relevant components of the Regional Strategic Alliance Business Plan for 2017-2018 (DPOP 1.4.b) |
| 6e | Develop partnerships with other agencies, community and business sector | Develop partnerships with other agencies to create efficiency savings and reduce operating expenditure per capita | Convene a workshop with adjoining Councils to improve alignment of Community Strategic Planning and Resourcing Strategies (DPOP 1.4.a) |

Table 2-22 Fit for the Future Action Plan

2.7 measuring financial sustainability

The following sections discuss the projected Fit for the Future ratios over the 10-year financial planning period (2016-2026). There are seven key measures for Sustainability, Infrastructure Management and Efficiency. Council is required to meet the set Fit for the Future benchmarks, or at least improve ratio results where we don't already meet them, by 2019-2020.

Fit for the Future Measures

| | 2014-2015 Base Year Actuals | 2019-2020 Projected Performance | 2025-2026 Projected Performance | Benchmark |
|---|--------------------------------|------------------------------------|------------------------------------|-----------|
| Sustainability: | | | | |
| Operating Performance ratio | -3.25% | 0.01% achieves | 0.10% achieves | >0% |
| Own Source Revenue ratio | 76.9% | 87.8% achieves | 88.2% achieves | >60% |
| Building & Infrastructure Asset Renewals ratio | 19.1% | 76.9% improves | 75.1% maintains | >100% |
| Infrastructure Management: | | | | |
| Infrastructure Backlog ratio | 2.0% | 1.98% achieves | 1.93% achieves | <2% |
| Asset Maintenance ratio | 96.0% | 96.9% improves | 100% achieves | >100% |
| Debt Service ratio | 8.8% | 6.2% achieves | 1.9% achieves | <20% |
| Efficiency: | | | | |
| Real Operating Expenditure per Capita | 1.05 | 0.94 achieves | 0.90 achieves | decline |



Operating performance ratio (Incl. depreciation, excl. capital revenue)

What Is Being Measured: Whether the Council has sufficient revenue (excluding capital items) to cover expenditure requirements (including depreciation), measured as a percentage

Calculation: Total operating revenue (excluding capital items) less total operating expenses (including depreciation costs) divided by total revenue

Target: Greater than or equal to breakeven

Fit for the Future Projection for 2019-2020: Achieves positive 3 year average ratio

Comment: Councils plan is to achieve an Operating Surplus every year from 2017-2018 on. There are significant increases from 2016-2017 to 2018-2019 due to an increase in operating income from the Special Rate Variation. SRV funds are mostly allocated to capital expenditure which is excluded from the ratio. These projections assume the *Six Strategies for Financial Sustainability* are implemented, including increases in income, reductions in ongoing expenditure and reductions in depreciation. The assumptions applied to the projections must also prove to be reasonably accurate.

This is an important result for improving financial sustainability but does not measure asset management. The trend in later years of a decrease in the ratio is a result of operating costs continuing to rise faster than the Council's ability to raise revenue due to inflationary cost pressures. It signals the need for the Council to continue its focus on implementing all six strategies to improve financial sustainability of the Council.

Table 2-15 shows the 10-year projected annual percentage performance of the operating result.

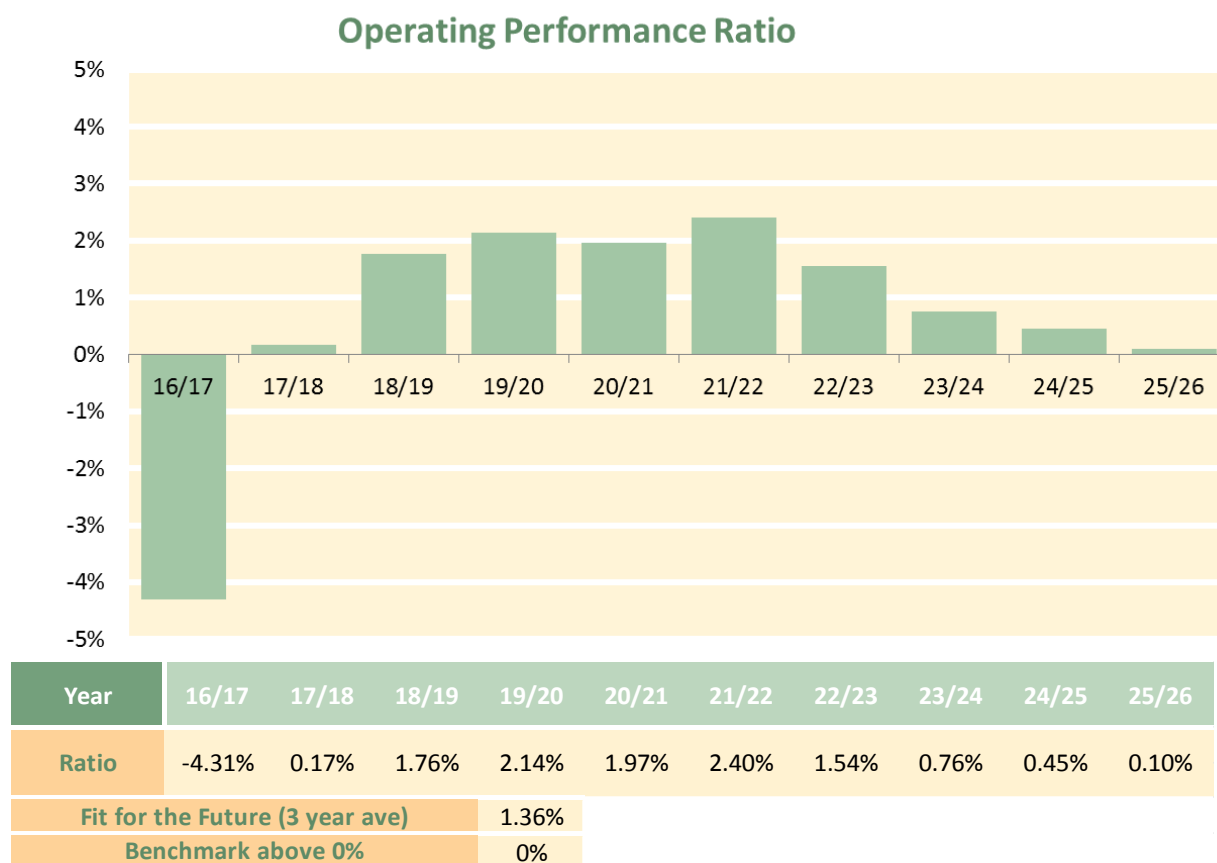


Table 2-15 10-year projection – Operating performance ratio

Own source revenue ratio

What Is Being Measured: This ratio measures fiscal flexibility. It shows the degree of reliance on external funding sources such as operating grants and contributions.

Calculation: Total operating revenue (excluding capital revenue) divided by total operating revenue

Target: Greater than 60%

Fit for the Future Projection for 2019-2020: Continues to achieve over 60% ratio averaged over 3 years

Comment: The amount of funding received from external sources can vary from year to year but Council has been exceeding the target in past years and is projected to improve on this ratio in future years due to the increase in own source rating revenue from the special variation.

Table 2-16 shows the 10-year projected Own Source Revenue ratio.

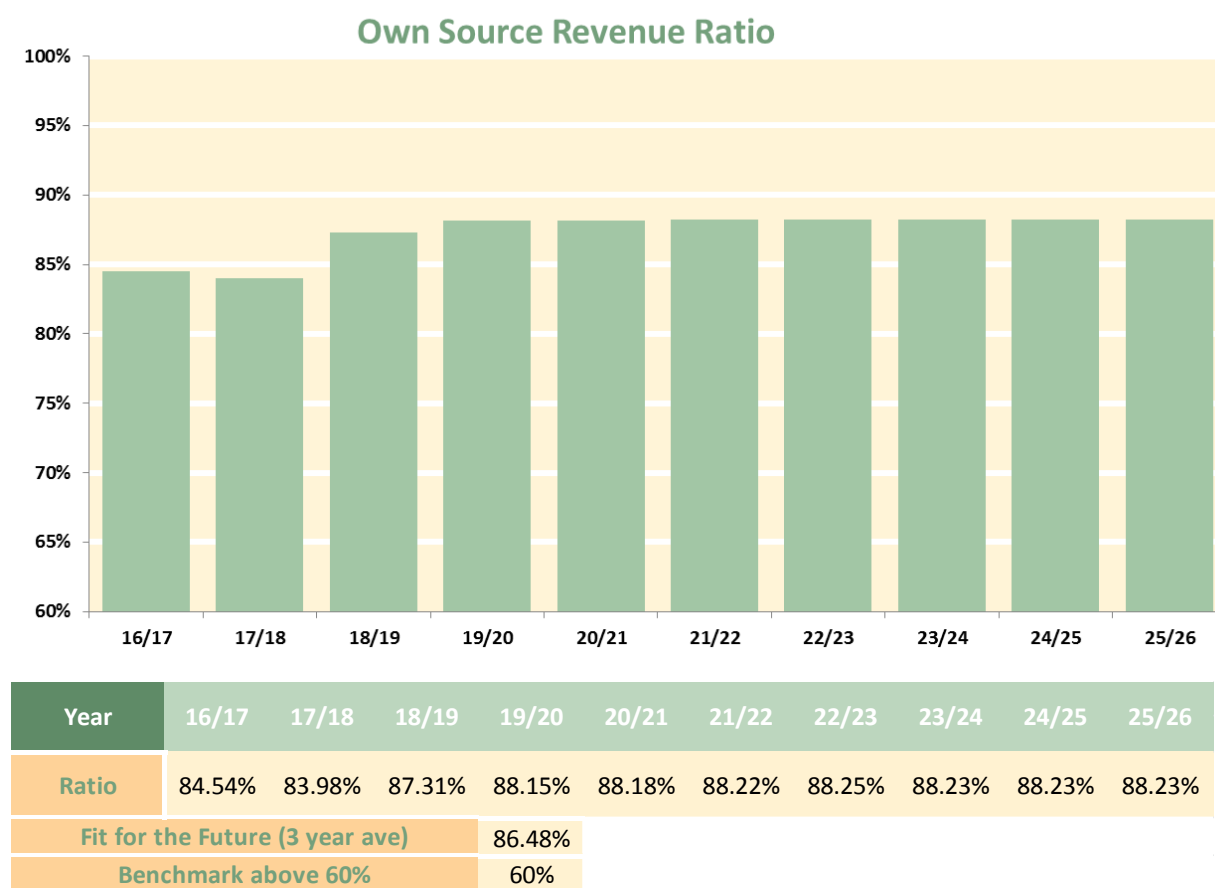


Table 2-16 10-year projection – Own source revenue ratio

Building and infrastructure renewal ratio

What Is Being Measured: The Council's ability to fund the renewal of road, drainage and building assets relative to the amount of funding projected to be required as measured by depreciation

Calculation: Road, drainage and building asset renewal expenditure divided by depreciation

Target: Greater than 100%

Fit for the Future Projection for 2019-2020: Significant improvement in 3 year average from 19% ratio result in the 2014-2015 base year

Comment: Councils strategy is to significantly improve the funding of built asset renewal requirements. This will involve a period of service level adjustment along with asset reconfiguration and consolidation, to ensure the City has the right assets to meet the changing needs of the community. As additional rating income is received, due to the special variation, more funding will be directed towards renewal of critical infrastructure assets which will significantly improve the ratio and ensure Councils assets are fit for the purpose of supporting service delivery requirements.

Assumed in the projections is a review of asset useful lives to ensure asset depreciation is an accurate measure of asset deterioration. Asset renewal funding, if allocated at the rate assets are being consumed i.e. depreciation, will result in improvement to the renewal ratio in the future. Due to the age of the City's infrastructure and constantly changing community needs, funding may be better at times allocated to new and upgrade of assets where required and this type of capital expenditure is excluded from the asset renewal calculation, so it may be a period longer than 10 years before the asset renewal ratio reaches the benchmark of 100%.

Table 2-17 shows the 10-year projected Building and infrastructure renewal ratio.

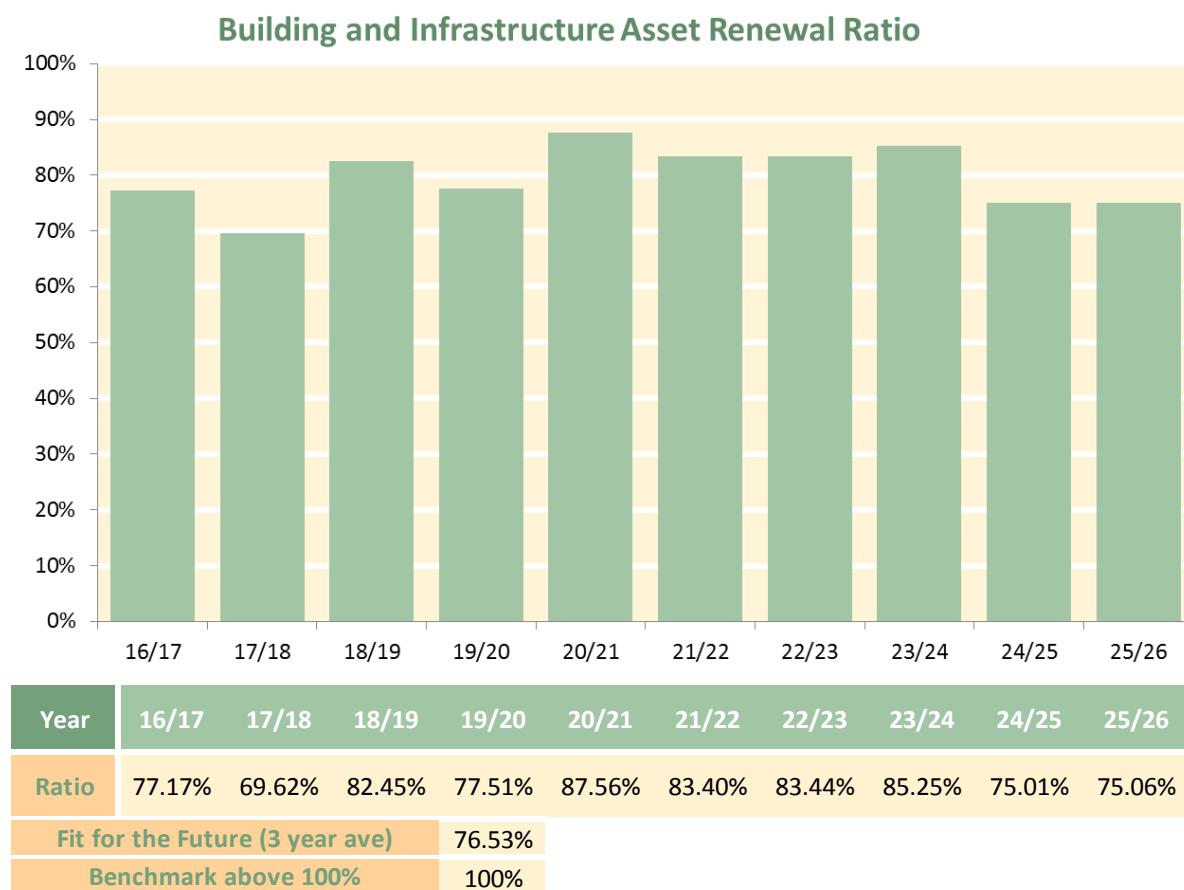


Table 2-17 10-year projection - Building and infrastructure renewal ratio

Infrastructure backlog ratio

What Is Being Measured: This ratio shows what proportion the backlog of infrastructure renewal is against the total value of a council's infrastructure

Calculation: Estimated cost to bring infrastructure assets to a satisfactory standard divided by the carrying value of infrastructure assets

Target: Less than 2%

Fit for the Future Projection for 2019-2020: achieves less than 2% ratio

Comment: The infrastructure backlog measures only the high risk built asset renewal backlog that does not have funded mitigating strategies. This backlog will be managed using available Special Rate Variation funds, implementation of the user pays strategy to ensure visitors pay for the services and assets they use, and lobbying for increased road funding. These projections assume mitigating strategies will be implemented to manage the items identified in the backlog including introducing hierarchies to determine reasonable asset condition levels. Reconfiguration and consolidation of assets will ensure funds are only allocated to assets critical for supporting acceptable and affordable levels of service.

Table 2-18 shows the 10-year projected Building and infrastructure backlog ratio.

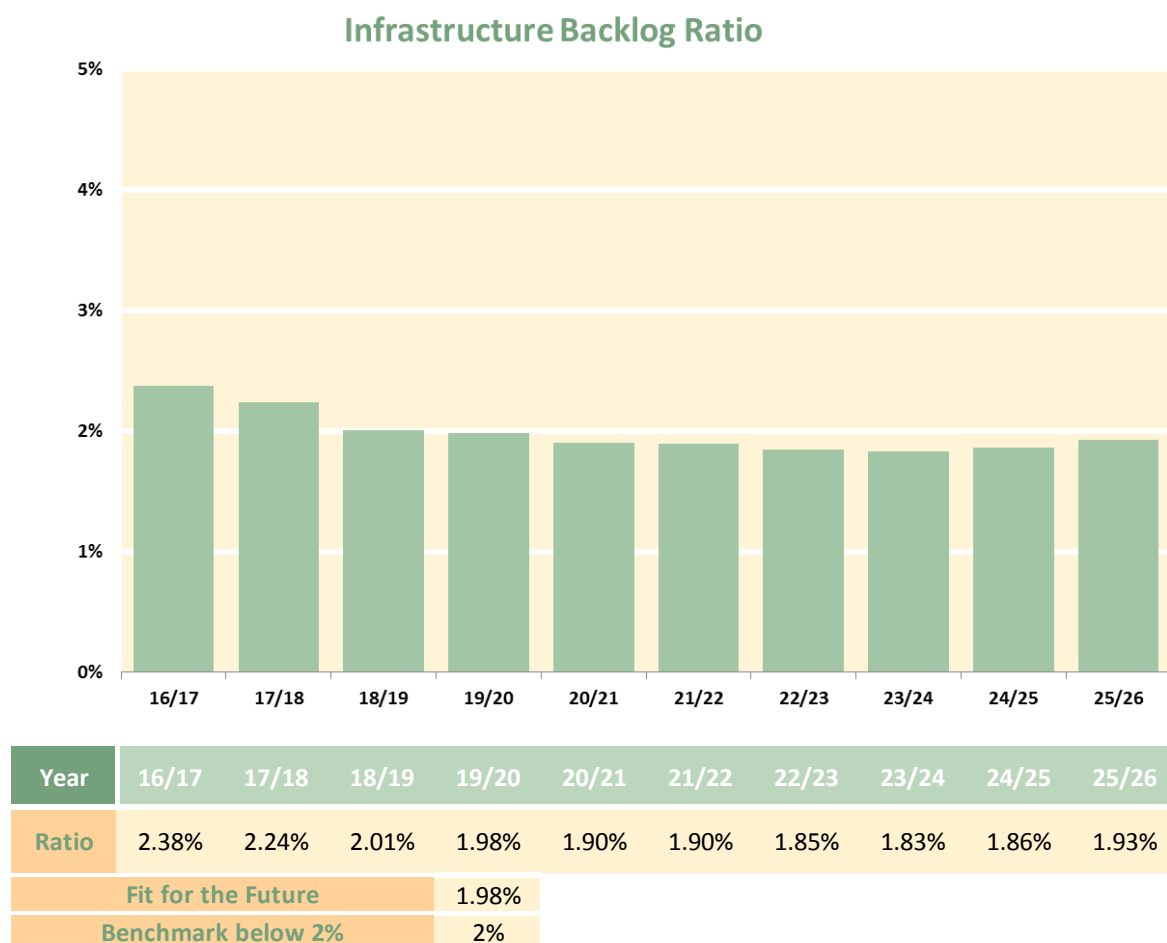


Table 2-18 10-year projection - Building and infrastructure backlog ratio

Asset Maintenance ratio

What Is Being Measured: If Council's actual asset maintenance matches required asset maintenance - to stop the infrastructure backlog growing and in line with agreed levels of service

Calculation: Actual asset maintenance divided by required asset maintenance

Target: Greater than 100%

Fit for the Future Projection for 2019-2020: The ratio is projected as a substantial improvement to the 3 year average as it reaches the benchmark 100% by 2019-2020

Comment: The LTFP assumes an increased allocation of funding to asset maintenance over the 10 years. Implementing the financial strategies will adjust the level of asset maintenance required through adjustments to service levels, consolidation and reconfiguration of assets and optimal lifecycle costing. By 2019-2020 it is projected that the Council will allocate the required level of funds to asset maintenance as determined by affordable levels of service agreed with community. Funding has not been planned to exceed this level. The Council aims over the next 10 years to consistently maintain an asset maintenance ratio close to 100% of the level of identified required maintenance in the Council's Asset management Plans.

Table 2-19 shows the 10-year projected Asset maintenance ratio.

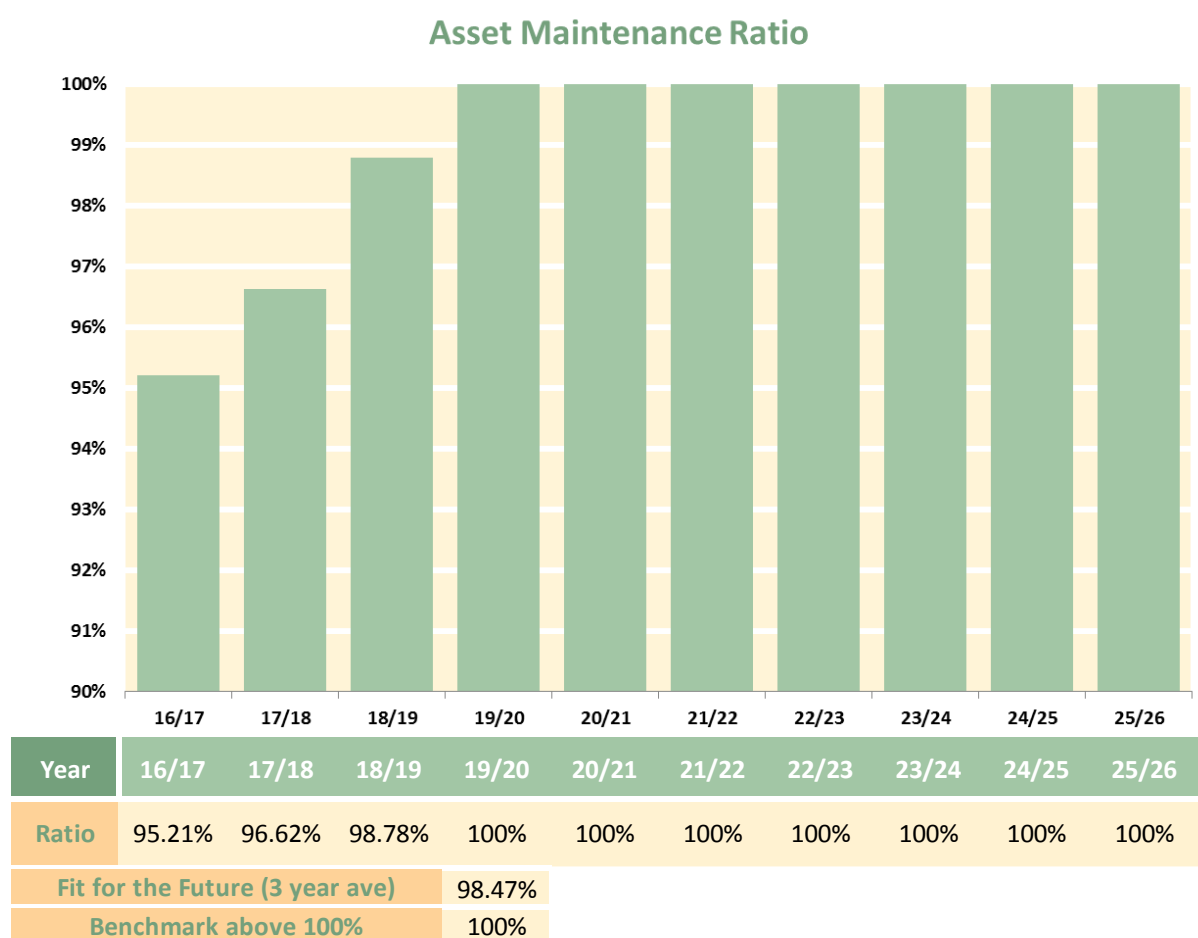


Table 2-19 10-year projection - Asset maintenance ratio

Debt service ratio

What Is Being Measured: Percentage of the Council's total revenue used to service debt

Calculation: Total loan interest and principal repayments divided by operating revenue

Target: Less than 20%

Fit for the Future Projection for 2019-2020: The ratio 3 year average is well within the benchmark

Comment: The debt service ratio is projected to be significantly below the benchmark, and repayments are within Councils financial capacity to fund. Improvements to the ratio occur as existing debts are retired in each year and no new debt is planned in accordance with the financial strategy to manage borrowings responsibility.

The projections assume capital expenditure will be funded by more sustainable means, including utilisation of Councils special rate variation income, capital grant income, and internal borrowings where required. It is assumed strategy 3 of the Councils *Six Strategies for Financial Sustainability* is implemented and the ratio may further improve where any surplus funds become available to further reduce debt. This would free up projected funds currently allocated to debt repayment for asset renewal requirements.

Table 2-20 shows the 10-year projected Debt service ratio.

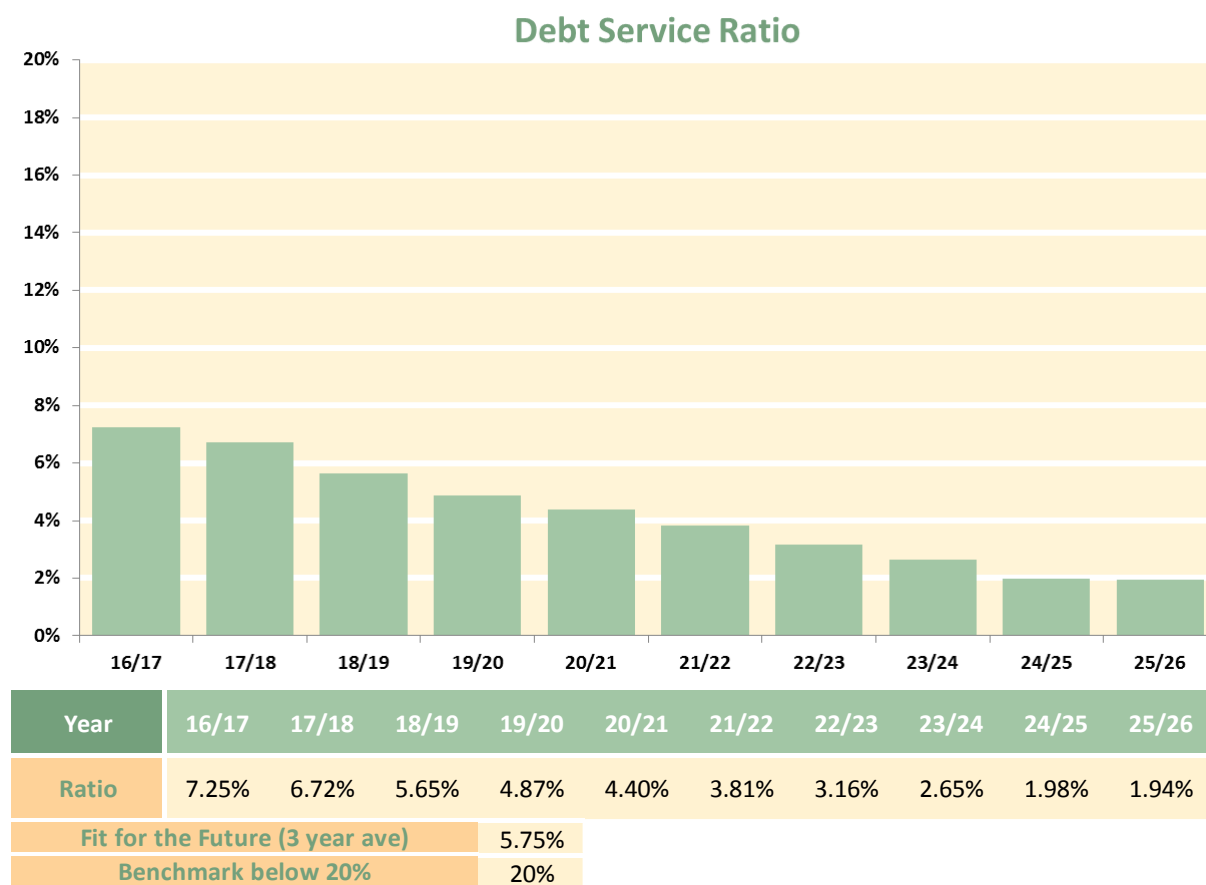


Table 2-20 10-year projection – Debt service ratio

Real operating expenditure per capita

What Is Being Measured: Indicates how well the council is utilising economies of scale and managing service levels to achieve efficiencies

Calculation: Operating expenditure (discounted to the base year equivalent amount) divided by population

Target: A decrease in real operating expenditure over time

Fit for the Future Projection for 2019-2020: Achieved through a decrease each year until 2019-2020

Comment: The operating expenditure used in this calculation excludes Integrated Planning and Reporting service improvements after the base year of 2014-2015. The amount excluded is the projected operational expenditure allocated from additional special rate variation funds.

This ratio is slow to decrease as it is impacted by the Blue Mountains having a low rate of population growth historically, and that is predicted to continue for the foreseeable future.

Table 2-21 shows the 10-year projected real operating expenditure per capita

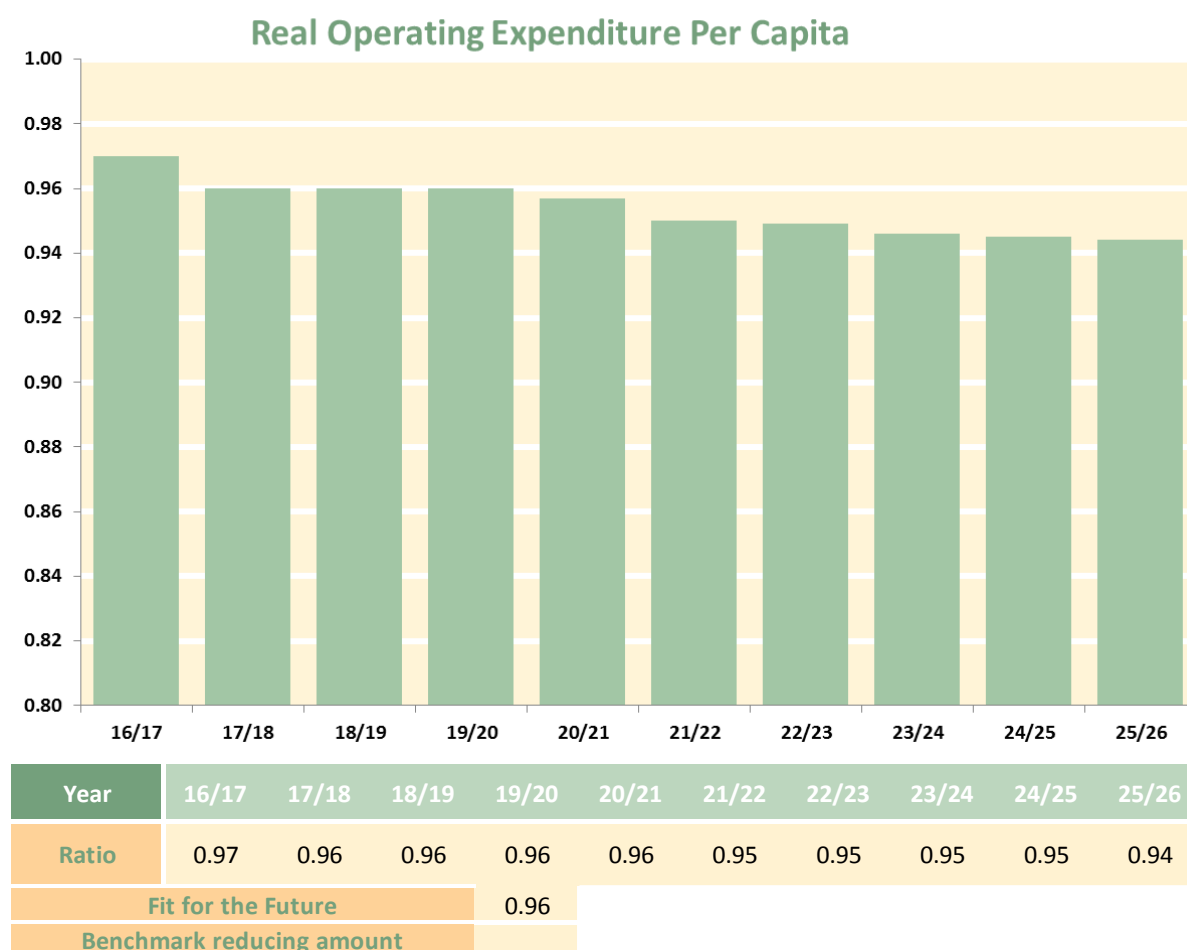


Table 2-21 10-year projection – Real operating expenditure per capita

2.8 key planning assumptions, revenue & expenditure forecasts

The *LTFP* has been prepared on a 10-year basis from 2016-2017 to 2025-2026. The *LTFP*'s first year uses the 2016-2017 adopted budget as its starting point. The following years are derived through a number of external planning and internal assumptions that are used to project revenue and expenditure budget allocations over the next 9-year period.

Each of the assumptions listed below include a brief description of the revenue or expenditure item, the source of the assumption and the external influences that come to bear on these assumptions where relevant.

A number of one-off or recurring adjustments have also been included in the *LTFP*. Where relevant, brief descriptions of these adjustments are also included.

The *LTFP* financial statements should be read with reference to the assumptions and adjustments listed in the sections that follow, which were utilised in the Council's financial modelling. Note that variation in actual prices and costs to Council due to uncontrollable external events will affect Council's financial projections. The extent of this impact will depend on the size of the revenue or expenditure assumption, the extent of variation, and the degree to which Council is able to mitigate the variation.

Council will review its assumptions and adjustments at least annually and analyse the impacts of these changes. Significant changes will be addressed as they become known. Additionally, the financial impact of some of these events are further explored through the various scenarios and sensitivity analysis contained within this *LTFP* document.

Planning assumptions

The *LTFP* is based on assumptions relating to Population and Socio-economic factors such as household income and urban growth that are largely outside the control of the Council. Assumptions relating to economic trends are discussed here.

Inflation (Consumer Price Index) forecasts

The projected inflation rate of 2.5% has been taken into consideration when determining appropriate income and expenditure increases to ensure that the Council's projected budget amounts reflect movements due to inflationary increases. In determining the inflation forecast, the Council has used the Reserve Bank of Australia and market analysts estimated CPI forecasts. This reflects a shift in the market and is significantly lower than previous forecasts. The inflation assumption has been applied across discretionary revenue and expenditure budget allocations where specific data modelling or specific internal assumptions cannot be determined or where the amounts are determined as immaterial (E.g. Contributions Income, Discretionary Fee Income, Other Revenue and some Other Expenditure budget allocations).

Interest rate movements

Market Interest rate assumptions apply for both investment income and borrowing cost projections.

For investment income projections, Council's interest income rates and returns are based on anticipated cash holdings, Reserve Bank of Australia forecast 90-day bank bill rates and Council's investment strategy and policy. The Council's anticipated cash holdings are drawn from projected revenues and expenditures and anticipated internal and external restricted cash reserve balances. These will fluctuate over the life of the *LTFP*. It is anticipated that the average annual portfolio over the ten years will be in the vicinity of \$20-24M and on the average the Council will earn around \$0.9M in interest income per annum over the 10 years.

For borrowing costs projections, the Council's interest expenditure rate movements are based on loan terms and conditions for existing loan commitments and the Reserve Bank of Australia cash rate forecasts, plus a retail bank margin. Rates of 5.22% per annum over 5 and 15-year loans have been applied to any of the Council's current variable rate borrowing commitments. The Reserve Bank of Australia's cash rate forecast has been used to determine the projected rate of any future borrowings.

Revenue Forecasts

In considering the Council's likely revenue that will be available to meet our community's long-term service needs and funding priorities, the Council's Long Term Financial Planning process considers each component of the Council's revenue and funding base including:

- Rates and annual charges
- Fees and charges
- Grants and subsidies
- Borrowings
- Cash Reserves

LTFP revenue projections over the 10 years of the plan have been based on current knowledge on revenue indices, Federal and State Government funding indications, historical trend analysis, and through consultation with relevant stakeholders.

As noted earlier, a key action within the adopted *Six Strategies for Financial Sustainability* is the proposed review of the Council's existing revenue strategies, to ensure revenue is maximised in an equitable, as well as a business-like manner.

Rates & Annual Charges

Income from rates and annual charges is a major component of the Council's total revenue base. This income totals \$68M or 64% of total operating revenue budgeted for 2016-2017 and is projected to increase over the 10 years to almost 70% due to special rate variation increases.

Rates (Rate Peg, Rate Growth and Rating Funding Options)

Rates revenue assumptions include increases for rate peg, ratepayer growth and special variations.

Table 2-22 highlights the *LTFP*'s annual % increases.

| Rates | 17-18 | 18-19 | 19-20 | 20-21 | 21-22 | 22-23 | 23-24 | 24-25 | 25-26 |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Rate Peg Increase | | | 2.2% | 2.2% | 2.2% | 2.2% | 2.2% | 2.2% | 2.2% |
| Special Variation | 9.6% | 9.6% | | | | | | | |
| Ratepayer Growth | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% | 0.15% |
| Total Increase | 9.75% | 9.75% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% | 2.35% |

Table 2-22 10-yr forecast - Rates

It should be noted that following reform to the Council's rating structure the current structure is now simple, fair, broadly uniform and legislatively compliant. As a result of this reform, a fair and equitable rating platform has been established.

The *LTFP* projects rate peg to average 2.2% per annum over the 10 years of the plan, given historical rate pegs, recent reductions in the rate peg and indications of future rate pegs.

Ratepayer growth is limited and fluctuates each year for the Council. The *LTFP* projects a conservative 0.15% per annum increase in rateable properties and this equates to an estimate of around 50 additional rateable properties per annum.

Annual Charges – Domestic Waste

Waste services are Council's single biggest annual cost in the order of \$27M. This includes over \$4M in payments to the NSW Government for its Waste Levy for local waste going to Council owned and operated facilities. The calculation of the Waste Levy rate is prescribed in the Protection of the Environment Operations (Waste) Regulation 2005. The Waste Levy is described as an economic lever used in NSW to reduce waste to landfill and encourage recycling.

Council has previously raised this issue with the State Government as it considers this tax on residents and businesses as an additional unaffordable expense for our community. This is especially the case when the Council and its ratepayers are self-sufficient in the provision of resource recovery and waste management infrastructure and services with a strong incentive to reduce waste to landfill to lengthen the landfill life. Given the other range of services that ratepayers expect from their rates and other cost shifting, the Waste Levy is considered poor value for money. This impost prevents further investment in other critical priorities and risk matters within the City.

A key financial challenge is the high cost of providing waste services to our low density, geographically large community compared to other more densely populated and compact local government areas. Consistent with the Council's *LTFP*, this challenge is proposed to be addressed in the Council's Draft Waste Strategy through the following strategies:

- Improved asset management and operations at the Waste Management Facilities and associated waste service activities through efficient, value for money business practices.

- Implementation of a Waste Service Review to ensure continued value for money and identify potential for service adjustment, including opportunities to reduce fixed costs.
- Seek suitable Federal and State Governments funding opportunities and further regional partnerships with other councils, organisations, community and business sector for best value for money contracts.

All residential ratepayers pay a Domestic Waste Management charge and the income is calculated so as to not exceed the reasonable cost to the Council, as is required under the *Local Government Act*. The basis of the charge is the *LTFP* assumption of a 5% per annum increase in the costs of providing waste and recycling collections, educational programs, booked bulky waste and kerbside chipping, landfill remediation costs, provisions for major plant replacements and a portion of tip operational and maintenance costs.

The *LTFP* 5% projection is based on historical trends, advice from the Council's Environmental Sustainability Branch and trends in domestic waste contract expenditure.

Fees & Charges

Council has the ability to raise revenues through the adoption of a fee or a charge for services or facilities. Some of the services provided by the Council are offered on a full or part cost recovery basis under the application of 'user pays' principle. Many of the Council's other services are provided either as free of charge (in recognition of the public good principle), a fee determined by statutory requirements, or at a commercial rate to produce an acceptable level of profit.

The fees and charges that Council can charge are split into two categories:

A. Regulatory fees

These fees are generally determined by State Government Legislation, and primarily relate to building, development or compliance activities. The Council has no control over the calculation and any annual increases of these fees and charges.

Regulatory fees have tended to have large fluctuations and have tended to be heavily subsidised by the Council due to the constraints placed on these fees by external regulatory bodies. Regulatory fees on the average have achieved a growth of around 1% (far below CPI) and this trend is expected to continue over the term of the *LTFP*.

B. Discretionary fees

Council has the capacity to determine the charge or fee for discretionary works or services such as the use of community facilities and access to community services.

The Council does not generate a significant amount of income from discretionary fees. This is primarily a result of the need to balance revenue with the need to provide affordable and equitable services to residents; for example, the hire of community facilities and the use of sporting facilities.

Approximately 40% of discretionary fees are generated from Council operated leisure centres. Based on historical trends and advice, fee income is expected to increase at no more than the rate of inflation, assumed at 2.5% over the 10 years of the plan.

Fees and charges are reviewed on an annual basis in conjunction with the preparation of the annual budget. Detailed user fees and charges and the general principles under which Council sets its fees and charges are contained in Council's 2017-2018 Fees & Charges Schedule included as part of the Delivery Program Operational Plan 2017 - 2021. The Council will continue its review of the fees and charges policy as an element of *Strategy 4 – Increase Income*.

Grants & Contributions

Council receives grants from the State and Federal Governments. These are either discretionary or non-discretionary. The majority of grants provided to Council are for specific purposes, such as infrastructure maintenance, provision of community services and environmental programs. Generally the funding received is less than the total cost of the works/services being provided. Typically, it is often a condition of the grant funding that Council provides matching funding.

A. Financial Assistance Grant

The largest single source of Council's grants revenue is the Financial Assistance Grant. This is a general purpose grant and is allocated to councils on a formula basis that has regard for a range of factors such as population, quantum of infrastructure maintained and the relative disadvantage between councils. In general, the total funding available increases each year in line with CPI and population growth.

The FAGs grant is used to maintain a wide range of infrastructure including local roads, bridges, recreation facilities, libraries, cultural facilities and deliver a variety of other services to our community at standards they expect and deserve. Up until the 2013-2014 allocation the Council had seen an increase in its financial assistance grant of 1% above inflation for several years.

The 2014-2015 Federal Budget froze the annual increase to the Financial Assistance Grant for 3 years from 2014-2015 to 2016-2017. It also reduced the allocation to NSW in each of these years with a proportionate reduction this Council. As shown in *Table 2-2*, the indexation freeze on the Grant means revenue received from the Grant will remain at \$8.2M per annum until 2017-2018. This had a \$253,000 impact on the Council's 2014-2015 budget, and in subsequent years, of \$620,000, \$1,003,000 and \$1,037,000 in the years 2015-2016, 2016-2017 and 2017-2018 respectively. This is a total of \$2.9M over this period of four years.

| Year | Original Expectation (4%) | 2014 Federal Budget Reduced FAGs | Loss over 4 years | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 |
|-----------------------------------|---------------------------|----------------------------------|--------------------|------------------|------------------|--------------------|--------------------|
| 2013-2014 Current Year - | 8,268,335 | 8,268,335 | 0 | | | | |
| 2014-2015 - NO Indexation | 8,536,000 | 8,283,421 | (252,579) | (252,579) | (262,682) | (273,189) | (284,117) |
| 2015-2016 - NO Indexation | 8,877,440 | 8,257,363 | (620,077) | | (357,394) | (371,690) | (386,558) |
| 2016-2017 - NO Indexation | 9,232,538 | 8,229,934 | (1,002,603) | | | (357,724) | (366,676) |
| 2017-2018 Indexation Reinstated - | 9,601,839 | 8,564,489 | (1,037,350) | | | | 0 |
| Totals | 44,516,152 | 41,603,543 | (2,912,609) | (252,579) | (620,077) | (1,002,603) | (1,037,350) |

Table 2-23 Extent of the 2014 Federal budget impact on the Financial Assistance Grant

The indexation freeze also impacts revenue into the future since the foregone revenue will never be recouped, leading to an ongoing loss of revenue of over \$1M per annum from 2017-2018.

Over the 10 years of the *LTFP*, the Federal budget announcement of cuts to FAG funding will result in millions of dollars in lost revenue for the Council. To fund this reduction in projected revenue the Council will have to reduce its services to the same magnitude. These offsetting reductions have been included in the *LTFP*.

The 2017-2018 increase is based on the Office of Local Government circular on the financial assistance grant total for the State which states a 4% increase in 2017-2018. From 2018-19 increases are 3.5% which is a continuation of the historical trend of 1% above CPI.

B. Special Purpose Grants

Special purpose grant income is generally in decline. Grants should only be accepted where it supports the current operational plan or asset works program, otherwise additional unplanned assets may be created that have ongoing costs for renewal, maintenance, cleaning, etc., that are not funded and other operational and capital projects that meet the strategic direction chosen by the Council may be delayed. The *LTFP* assumes that other grants will increase in line with CPI at 2.5% per annum.

The Family Day Care Childcare Benefit has assumed in the *LTFP* to have no increase from 2016-2017 and this revenue stream is directly matched to Family Day Care expenditure projections.

C. Section 94 and 94A Development Contributions

Development contributions are contributions made to the provider of local public facilities by those undertaking development approved under the *Environmental Planning and Assessment Act 1979* (EP&A Act). Contributions may be in the form of money, dedication of land or some other material public benefit (or a combination of these).

The Council's *Developer Contributions Policy (s94A)* seeks 0.5% or 1%, depending on the Policy thresholds, of the proposed cost of carrying out a development (see *Table 2-24*). These funds help provide public infrastructure, amenities and services that are associated with new development in the City.

Table 2-24 Section 94A contribution thresholds

| Proposed Cost of the Development | Levy Percentage |
|----------------------------------|-----------------|
| \$0 - \$100,000 | 0% |
| \$100,001 - \$200,000 | 0.5% |
| More than \$200,000 | 1.0% |

In addition to the s94A Contributions Policy, the Council has a 'Section 94 Plan' that relates to a few discrete development precincts.

Both s94A and s94 Contributions are held as an externally restricted asset until they are spent for the purposes designated in the adopted contribution plans. The level and timing of contributions fluctuate according to a variety of factors including economic growth and the level of development activity in the Local Government Area.

Due to relatively stagnant population growth, developer contributions provide a very limited source of funding for the Council. As at 30 June 2016, the Council has externally restricted asset reserve balances of approximately \$0.5M and \$1.1M from s94 and s94A contributions, respectively.

Our old Section 94 plan brings in limited funding. However, the *LTFP* assumes that our new s94A plan will raise around \$0.5M per annum, noting that the actual amount received in any given year may vary significantly from this estimate.

D. Capital Grants and Contributions

The only projected capital grant revenue is from Roads and Maritime Services (RMS) for road works. This is a matching grant as the receipt of this revenue is reliant on continuing the Council's funding of road renewal. It has been assumed that the amount received in future years will be the same as current funding.

E. Other Contributions

Council receives a number of other financial contributions. The most significant of these are for road and footpath restoration works and other RMS transport infrastructure contributions. The *LTFP* assumes the RMS contributions will continue with no increase and all other contributions will increase at 2.5% pa in line with the rate peg.

Borrowings

Over the past decade, the Council has used borrowings as a source of funding its Asset Works Program to satisfy community needs, as well as for a number of key major projects in order to maintain a vibrant City and support local economies. While the Council's debt service ratio financial indicator (i.e. the degree of revenue from continued operations committed to the repayment of debt) is within industry benchmark, its financial planning has identified that it has reached its capacity to incur new debt. Therefore, a strategy has been included in the Council's adopted *Six Strategies for Financial Sustainability* to manage borrowings responsibly (Strategy 3) by minimising future borrowings and reducing existing debt.

Implementing this strategy involved replacing current annual borrowings to fund the Asset Works Program with revenue from the continuation of the special rate variation for infrastructure (Stage 1). Where possible, every opportunity will be taken to reduce existing debt from any surplus operational funds. The debt servicing cost savings from reducing the debt will be directed to priority asset maintenance and renewal works.

The Council's borrowing program will result in a manageable debt service ratio, which is below the industry benchmark and Fit for the Future requirement of less than 20%.

Investment Revenues

Interest revenue earned by the Council varies largely based on the total amount held in Council's Investment Portfolio. Council's *LTFP* projects minimal future movements in the amount of Council's Investment Portfolio since although there are some fluctuations within certain reserves overall the balance is projected to be maintained at the 2015-2016 portfolio balance of around \$22-\$25M.

Interest Revenue is also subject to external factors such as monetary policy decisions, and economic and investment market conditions. Over the longer term, economic conditions can vary

considerably, which in turn can affect interest rates. In times of economic expansion, raising interest rates can be an effective way of reducing economic growth and thereby lowering inflationary pressures. Conversely, during economic downturns the lowering of interest rates can have a positive impact on economic growth.

Over the past ten-year period the Official Cash Rate has varied from a minimum of 1.5% to a maximum of 7.25%. In preparing long-term interest revenue projections, the Council has researched available economic data and projections from a variety of sources, in addition to seeking advice from external investment advisers. Based on this research and having regard for the Council's conservative investment policy, the *LTFP* model anticipates that the average annual portfolio over the ten years will be in the vicinity of \$22-\$25M. On average, the Council will earn around 3.7% which equates to \$0.9M in interest income per annum over the 10 years.

Continual monitoring of projects and updating of the index in the *LTFP* model will occur on a regular basis, having regard for likely future changes in economic conditions.

Cash reserves and restricted assets

The Council has a number of Cash Reserves which are either a legislative requirement (externally restricted) or through a Council decision (internally restricted).

The establishment and funding of Cash Reserves is a financial management strategy to provide funds for future expenditure that could not otherwise be financed during a single year without having a material impact on the Council's budget. For example, local government elections occur every four years, so the Council sets aside one quarter of the estimated cost of the election each financial year.

The balance of Cash Reserves as at 30 June 2016 was \$30.5M comprised of \$7.6M in Externally Restricted Reserves and \$21.2M in Internally Restricted Reserves and \$1.7M in Unrestricted Cash.

The Council's restricted and unrestricted reserves are reflected as operational and capital funding sources in the *LTFP*.

Other Revenues

Other revenues include effluent contract revenue, operations recycling revenue and rental income centres. Revenue from these sources is difficult to predict as they can be susceptible to a range of external factors such as prevailing economic conditions, population growth and changing demographics. Other revenue is projected to increase at 2.5% per annum, based on historical trends in these categories of income and on advice from relevant senior staff managing these businesses.

Sale of plant and property

The sale of property assets is intended to provide a minor contribution to the revenue raising plans of the Council. The anticipated net revenue from the sale of non-strategic assets is estimated at \$5.5M for the next three years. The net revenue from the sales will be used to fund the repayment of loans associated with the Blue Mountains Theatre and Community Hub Facility – Springwood project.

Profit on Sale of Assets

Current profits on sales are projected to increase each year at the same rate as CPI. Other fluctuations in sales of assets are based on projections of the Council's Property Disposal Investment Plan (*Table 2-*). These proceeds are planned to be used to fund further property development to enable future sales, additional asset renewal, and the majority of the loan payments for the Blue Mountains Theatre and Community Hub Facility – Springwood.

| Property Investment Fund | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 |
|--------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Opening Balance 000's | \$1,668 | \$4,271 | \$5,843 | \$7,335 | \$7,477 | \$6,942 | \$6,407 | \$5,874 | \$5,342 | \$4,807 | \$4,859 |
| Property Sales | \$4,795 | \$2,519 | \$2,450 | \$950 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 |
| Tower Rental Income | \$61 | \$8 | \$88 | \$92 | \$96 | \$101 | \$105 | \$110 | \$111 | \$113 | \$119 |
| Development Costs | (\$1,185) | | | | | | | | | | |
| Expenses | (\$485) | (\$422) | (\$500) | (\$365) | (\$297) | (\$297) | (\$297) | (\$297) | (\$297) | (\$297) | (\$297) |
| Loan Repayment | (\$595) | (\$589) | (\$590) | (\$591) | (\$591) | (\$590) | (\$590) | (\$589) | (\$589) | | |
| Interest Revenue | \$22 | \$64 | \$88 | \$110 | \$112 | \$104 | \$96 | \$88 | \$80 | \$72 | \$73 |
| Asset Renewal | (\$11) | (\$7) | (\$44) | (\$55) | (\$56) | (\$52) | (\$48) | (\$44) | (\$40) | (\$36) | (\$36) |
| Closing Balance | \$4,271 | \$5,843 | \$7,335 | \$7,477 | \$6,942 | \$6,407 | \$5,874 | \$5,342 | \$4,807 | \$4,859 | \$4,917 |

Table 2-25 Property Disposal Investment Plan - profit on sale of assets

Commercial activities

The Council delivers a number of services that are classed as commercial activities as these services are delivered with the main intention of generating surpluses from their operations. Such activities are generally considered as non-core activities and do not directly relate to meeting community service obligations. The following services have been defined as commercial activities:

- Caravan Parks (at Katoomba and Blackheath)
- Commercial Property Portfolio (approximately 20 buildings leased as residential and commercial properties with some containing multiple shops)
- Effluent Collection Service (2 Tankers for effluent removal)
- Roads and Maritime Service (Agent for RMS at Katoomba HQ)

The *LTFP* provides for the Council to continue to maximise ongoing commercial returns through commercial activities and in doing so the Council's commercial activities will focus on:

- Developing and implementing business strategies and plans for commercial activities
- Achieving net revenue targets specified in business plans
- Maintaining/improving service operations and facilities to ensure competitiveness

The achievements against specific targets will be outlined in the commercial in-confidence business plans and reports to the Council. Commercial activities currently generate approximately \$3.0M pa and the *LTFP's Strategy 4 – Increase Income* aims to strengthen the Council's financial sustainability through maximising net revenue from each of these commercial activities wherever there are opportunities for future income and economic growth.

Expenditure forecasts

The *LTFP* considers an array of information on ongoing operational and capital expenditure that are incurred as a consequence of meeting the community's expectations for the future as determined in the Council's Community Strategic Plan 2035.

Balancing community expectations and uncertainty of future expenditure forecasts is one of the most challenging aspects of the Council's *LTFP*.

In developing the Council's expenditure forecasts, the Council has considered the Council's ongoing commitments in alignment with the objectives of the Council's community strategic plan. Relevant sources of information on commitments have included the asset management strategy, previous management plans and repayment schedules for long-term borrowings.

It is important to understand that the annual fluctuations in prices and quantities of all expenditure items inform the *LTFP* expenditure forecasts but the annual adjustments applied in the *LTFP* are an average of the expected increases over the 10 years. Additionally, annual fluctuations for individual expenditure items, both increases and decreases, effectively average out against other expenditure item fluctuations both within an annual period and over the 10-year period.

The *LTFP*'s new expenditure forecasts include complete costings for capital and recurrent expenditures such as operational, maintenance and replacement asset costs over the useful life of the infrastructure item.

The Council's *LTFP* also phases expenditure appropriately across the 10-year term. For example, for the Council's Asset Works Program where projects are completed during the Long Term Financial Plan, the expenditure reflects when specific expenditure for planning, construction, implementation and maintenance is expected to occur.

Employee benefits and on-costs

A significant component of delivering high quality services to the community are the employment costs associated with the establishment and development of a highly skilled and responsive workforce. Some 47% of the current operational expenditure (excluding capital expenditure) are employment costs, which have remained reasonably static over time due to the nature of Council's operations. That said, the actual cost of the workforce continues to increase at a far greater rate than the Council's revenue capability since our rating revenue is constrained to State Governments rate peg.

While a solution would be to simply reduce the size of the workforce, this is highly problematic, as there is a direct correlation between employment costs and service levels. Essentially, any reduction in staff numbers will lead to a reduction in the level of service. Therefore, the key premise of the Council's *Workforce Management Strategy* is to maximise workforce productivity by ensuring a highly safe, skilled and engaged workforce. Such a holistic approach has a significant flow-on effect and leads to a reduction in turnover, workers compensation costs, leave liabilities and absenteeism – all of which impacts positively on both costs and levels of service. (See *Part 4 Workforce Management Strategy* for analysis of this approach).

Pragmatically, this can be best evidenced with the Council's requirement, over recent years, to deliver activities previously provided by other tiers of government, without increasing the overall size of the workforce. As highlighted in the Council's *Workforce Management Strategy*, the factors mentioned above will also produce real savings of significant order.

Employee Costs include the payment of Salary and Wages, Employee Leave Entitlements, Superannuation and Workers Compensation expenses. The primary drivers of increased employment costs are predominately external factors outside the control of the Council; such as, NSW Local Government (State) Award wage increases, Federal Government determined superannuation increases, WorkCover NSW workers compensation costs, sick leave and leave entitlements. These increases in employment costs have been factored into the Council's *LTFP*.

The previous Local Government (State) Award was negotiated for three years. The Award provided for the following wage increases: 2.6% at 1 July 2014; 2.7% at 1 July 2015; and 2.8% at 1 July 2016. These increases added approximately \$1.0M to the annual wages bill (in today's terms).

The *LTFP* has projected future increases based on an average of the past 3 year award increases and considered all of the other factors above and increased overall employment costs by 3.9% per annum for the average anticipated increases over the 10 years of the plan. This allows for all increases in employment related costs without having to further constrain employee numbers. Additionally, future adjustments to employment costs have been factored into Council's *LTFP* due to adjustments to service levels in specific areas of Council. Examples include additional staffing for the Blue Mountains Theatre and Community Hub – Springwood, reduced employment costs at our leisure and aquatic centres.

The additional Special Rate Variation funding will require the need for additional skills in the order of 30 full time employees over the 10-year period, which is reflected in the *LTFP* through additional Assets Works Program expenditure. However, through natural attrition the size of the workforce reduces by an average of 3 full time employees a year. Overall, there should be a neutral impact on the size of the workforce.

Superannuation

Council is required to make compulsory employer superannuation contributions on behalf of its employees. The amount of employer superannuation contributions which are payable by the Council increase in line with wages and depend on whether an employee is in an accumulation scheme or a defined benefit scheme. The main difference between each of these schemes from the Council's perspective is the level of contribution the Council is required to make on behalf of each employee.

For employees in the accumulation scheme, the Council is required to make compulsory employer superannuation contributions in accordance with the compulsory employer superannuation contribution limits of the *Superannuation Guarantee (Administration) Amendment Act 2012* (SGC). The SGC is implementing a staged increase in the compulsory superannuation rate from 9.5% to 12% starting in 2021-22 and increasing 0.5% pa until reaching 12% in 2025-26 as follows:

- July 2021 – 9.5%
- July 2022 – 10%
- July 2023 – 10.5%
- July 2024 – 11%
- July 2025 – 11.5%
- July 2026 – 12%

These increases are to be met by the employer and will increase the employment costs to the Council. The current annual superannuation cost to Council is approximately \$4.7M. While these increases are to be phased in over time, moving to a 12% SGC, plus increases from higher wages and salaries, the Council's overall superannuation bill will increase to \$8.2M in 2025-26.

For employees who are in a *Defined Benefit Superannuation* scheme, Council's superannuation contribution is based on a multiple of the employee's salary. In addition to this amount, all NSW councils were initially advised in 2011 that due to the impact of the Global Financial Crisis and the negative effect this had on the financial position of the *Defined Benefit Superannuation* scheme, all

councils would be liable for a separate fixed levy payable over a projected 10-year period. For the Council, this levy is approximately \$380,000 annually. Recent advice from Local Government Super is that whilst the financial position of the scheme is reviewed on an annual basis, it would be prudent for the Council to budget for this additional levy in the foreseeable future. As such, this additional cost has been incorporated into the *LTFP* and is assumed to continue for the 10-year life of the plan. Should the required contribution vary from this forecast, the *LTFP* will be revised accordingly.

Workers compensation

In June 2012, the NSW Government introduced changes to the *Workers Compensation Scheme* in NSW. While the reforms improved the return to work process, the key driver of the reform is to return the scheme to financial sustainability without large increases in employer premiums.

It is the responsibility of individual organisations to effectively manage their workers compensation costs and injury management processes. In anticipation of future possible premium increases, Blue Mountains City Council has undertaken a major review of its workers compensation and injury management processes. This exercise led to the Council being admitted into WorkCover NSW's *Retro-Paid Loss Scheme* in 2011. While participation in this scheme requires a more proactive management approach, it has seen a significant reduction in workers compensation premiums in the order of 60% and is delivering savings to the Council in excess of \$1.0M annually (as depicted in *Figure 2-26* below). This result positions the Council as one of the leading councils in workers compensation and injury management processes when compared to other NSW councils, as evidenced in the NSW Council LGSA Survey.

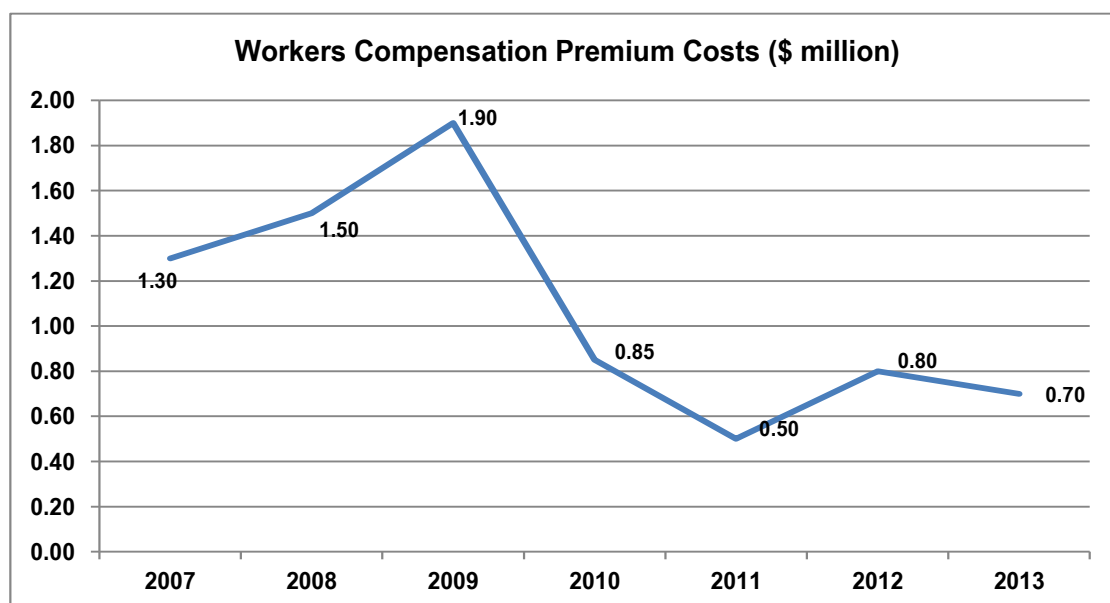


Figure 2-26 Workers compensation premium costs at the Blue Mountains City Council

The Council's *LTFP* projects Workers Compensation expenditure at 1%.

Borrowing costs

Current borrowings and additional projected loans have been used to calculate principal and interest loan repayments. Loan repayments reduce over the projected years as no new loans are made and current debt is retired. Interest payments are projected to substantially reduce over the 10 years.

Council's interest expenditure on loans progressively reduces from \$2.6M in 2016-2017 to \$0.7M in 2025-2026 as the Council continues to implement *Strategy 3 - Manage Borrowings responsibly*. Furthermore, the Council has and will endeavour to reduce debt earlier where possible, and has implemented an annual review of borrowings. No new borrowings are planned unless:

- The cost of the debt is funded from sufficient income or cost saving generated by the project;
- Financially responsible subsidised loan funding is available (e.g. LIRS funding); and
- Any proposed new borrowing is supported by a comprehensive business case

Council's interest expenditure rate movements incorporate two 10-year infrastructure loans under the State Governments *Local Infrastructure Renewal Scheme* (LIRS). The *Scheme* provides an attractive 4% interest rate subsidy and allows the Council to make use of borrowings to accelerate investment in infrastructure backlogs. Council has subsidised loans of \$6.0M and \$4.86M for the Blue Mountains Theatre and Community Hub – Springwood, and the Blaxland Resource Recovery and Waste Management Facility, respectively.

Materials & contracts and Other Expenditure

The Council's materials and contracts and other expenditure includes a broad range of services and expenditures including (but not limited to) advertising, external financial audits, emergency management statutory contributions, utility costs (electricity, water and gas), street lighting, insurances, legal and consultant fees, infrastructure maintenance, cultural services and civic events, cleaning and waste management.

Costs are impacted by many factors such as economic conditions, market competition, and availability, and transport of resources and raw materials.

The *LTFP* projects these costs to increase on average over the 10 years of the plan by an annual amount in line with CPI (2.5%). The assumption of 2.5% applies to all expenditure other than employment and where alternative expenditure forecasts are otherwise noted in the *LTFP*.

These alternative expenditure forecasts include costs such as Emergency Management Statutory Contributions and Asset Maintenance which have been indexed at either a higher than CPI rate based on recent trends or other exceptional projection factors. Details of these expenditures are as follows:

A. Emergency Management Statutory Contributions

Emergency management statutory contributions are an expenditure item which is anticipated to increase at a higher rate than CPI. They are payments made by the Council to other levels of government such as the rapidly increasing Emergency Management Statutory Contributions. These costs consist of compulsory contributions to the NSW Fire Brigade, Rural Fire Service and State Emergency Services. The *LTFP* projects that these payments will increase annually by an average of 5%. Actual annual contribution increases at times have far exceeded 5% and over the past few years have averaged around 9% per annum. However, the *LTFP* assumes that any significant increase over 5% will require a response from the Council to either advocate to the agencies for costs to be managed within budgets available or the Council will need to make a transparent decision on where funding will come from and which services will be affected.

B. Asset Maintenance

Asset maintenance is increased at 3.5% pa, which is higher than CPI, to increase the funds allocated to asset infrastructure and support appropriate funding of asset lifecycle costs to avoid significant additional renewal expenditure needs in future years. This ensures the Council meets the Fit for the future Asset Maintenance ratio target of 100% by 2019-2020.

Capital expenditure

The Council's 10 year Asset Works Program projections have been combined with other capital expenditure projections to give total capital expenditure. Other Capital expenditure, not included in the Asset Works Program, includes Plant and Equipment, Fleet, Information Technology and other small capital purchases. It is projected that these expenditures will increase in line with other expenditure increases as noted above.

The Asset Works Program expenditure matches available funding from capital grants, loans, additional rates from any special variations and specifically allocated operational funding.

Council's Asset Works Program aims to deliver much needed maintenance, renewal and upgrade of infrastructure assets supporting the community, emergency management, the environment and other public infrastructure including roads, town centres and footpaths.

Depreciation

Depreciation is the annual consumption of built assets. It is calculated using the fair value of assets, less any residual value, divided by the assets useful life. It reflects the renewal expenditure requirement, given how long assets are actually being made to last. Fair Value is the market value of an asset or the cost to replace the asset. Depreciation is impacted by a number of variables including the level of affordable service provision that the Council can provide and that the community has agreed is acceptable.

Council's infrastructure assets have been revalued in accordance with a staged implementation program as required by the Office of Local Government. Full revaluations of Council's assets at fair value, are being undertaken on a five year cycle unless material changes are identified. The actual depreciation expenditure in future years may be impacted by future asset revaluation methods and timing as stipulated by relevant accounting standards.

In the LTFP, depreciation projections fluctuate over the 10 years. Projections increase annually for capital purchases less asset sales, but an offsetting reduction has been included in the early years due to an extension to useful lives. Strategies are being implemented to increase asset maintenance so as to prolong useful lives, and Asset Management Plans are developed to improve optimised life cycle costing of assets. Periodic reviews of asset values and asset useful lives will be undertaken to ensure closer alignment of long term asset plans to depreciation values.

2.9 risk assessment

A risk assessment has been performed on the *LTFP* by examining at a high level the impact of inaccurate projected estimates of operational items and capital expenditure and other financial risks. This risk assessment has been assessed using the Council's risk matrix (*Figure 2.27*). The severity and frequency of each risk was examined to establish a risk rating for each category. Risk treatments and mitigation strategies were then detailed to identify the best methods to help eliminate and or minimise the potential impacts arising out of the identified risks.

It is important to note that the risk ratings listed below relate only to the inherent risk for each item. Residual risk ratings are determined when the effectiveness of the risk treatments and mitigation strategies are considered.

| IMPACT | LIKELIHOOD | | | | |
|----------------|------------|--------------|--------------|-------------|--------------------|
| | Rare (1) | Unlikely (2) | Possible (3) | Likely (4) | Almost Certain (5) |
| Severe (5) | Moderate | High | Extreme | Extreme | Extreme |
| Major (4) | Moderate | Significant | High | Extreme | Extreme |
| Moderate (3) | Low | Significant | Significant | High | Extreme |
| Minor (2) | Low | Moderate | Significant | Significant | High |
| Negligible (1) | Low | Low | Low | Moderate | Moderate |

Figure 2-27 BMCC Risk assessment matrix

10-Year forward financial plan risk assessment

| | Potential Risk | Consequence | Likelihood | Risk Rating | Risk Treatments / Mitigation strategies |
|-----|---|-------------|----------------|-------------|--|
| 1. | Depreciation calculation does not reflect asset useful lives and consumption | Severe | Almost Certain | Extreme | Review of depreciation and useful lives. Asset Management Improvement Plan. |
| 2. | Renewal & maintenance of assets is not funded at the most optimal time resulting in higher costs and unplanned asset failures | Severe | Almost Certain | Extreme | Reconfiguration and consolidation of assets. Direct funding to critical assets. Capture visitor income to fund visitor infrastructure. Annual review of SV2 allocation and Best Value Business Case process for allocating funds. Asset Management Improvement Plan. |
| 3. | Unplanned major capital asset works requiring borrowing within 5 years and/or Council funds | Severe | Likely | Extreme | Best Value Business Case to ensure alternate funding sources exhausted and possible income streams are built in to the funding proposal. |
| 4. | Financial Assistance Grant funding stops or reduces | Severe | Possible | Extreme | Conservative estimates used on future increases. Advocate to Federal Government. |
| 5. | Negative effects of global issues on investment markets | Severe | Unlikely | High | Implement LG investment order and a low risk Council Investment policy |
| 6. | Natural Disaster Events & Climate Change impact on assets and redirect funding and labour from planned work | Major | Possible | High | Redirection of capital and maintenance budgets. Service levels reduced and rebalanced to address priority risks. Resilience Planning. Advocate & monitor. |
| 7. | Waste Levy and other waste costs increase above projections | Severe | Unlikely | High | Waste management and recycling initiatives. Alternative waste technologies. Advocate to Federal & State. Further regional partnerships. |
| 8. | Projected savings from best value allocation of additional special rate variation funds are not realised | Moderate | Possible | Significant | Best Value Steering Group review of special variation funding allocation. Transparent reporting. |
| 9. | Projected savings from efficiency improvements including Business Improvement projects are not realised | Moderate | Possible | Significant | Partnering, including regional Strategic Alliance. Transparent reporting. |
| 10. | Employee Wages estimates are underestimated in projections | Moderate | Possible | Significant | Industrial Award negotiations. Approval from Executive Leadership Team required for all replacement and new positions. |

| | Potential Risk | Consequence | Likelihood | Risk Rating | Risk Treatments / Mitigation strategies |
|-----|--|-------------|------------|-------------|--|
| 11. | Rate pegging lower than 2.2% | Moderate | Possible | Significant | Service levels reduced and rebalanced to address priority risks. |
| 12. | High Workers Compensation claims | Moderate | Possible | Significant | Implementation of Safety Improvement Project. Proactive management of workers comp claims and return to work programs & monitor key performance measures. Contingency Reserve Provision. Staff training. |
| 13. | A large number of people will require their Leave entitlements – Annual and Long Service Leave | Moderate | Unlikely | Significant | Restricted cash to cover provision for leave entitlements. Maintain appropriate level of reserve provision. |

Table 2-28 10 year forward financial plan risk assessment



2.10 conclusion

The Council's has made significant improvements in its financial position through implementing our *Six Strategies for Financial Sustainability*. Engaging the community and implementing a Special Rates Variation has placed us in an improved financial position and increased the Council's capacity to meet the goals of our Community Strategic Plan 2035 and enabled us to be Fit for the Future. The Council still faces significant future financial challenges as costs continue to rise faster than income, Council's \$1.1B assets continue to age and community needs change.

Although our cash liquidity (i.e. our working capital) is sound and a number of financial performance measures are above Fit for the Future benchmarks, there are two key performance indicators that must be improved: firstly, the Council's Operating Result; secondly, the Infrastructure Asset Renewal Ratio. The Operating Result is currently, in 2016-2017, in a deficit position. This means the Council's revenue is insufficient to meet our City's expenditure requirements. Over the next 10 years however, this LTFP aims to deliver surplus operating results (including depreciation). The Asset Renewal Ratio is also currently less than the benchmark. This means the Council is underfunding all built asset renewal requirements relative to the rate at which these assets are depreciating and assets are critical to supporting future Service delivery. The LTFP has guided the allocation of additional funding to required asset renewal to improve this ratio.

This *LTFP* involves the implementation of *Six Strategies for Financial Sustainability*. When implemented together, these strategies will ensure that the Blue Mountains is in a financial position to meet future requirements, and is a better place to live, work and visit in the future.

asset management strategy



3.1 introduction

The *Local Government Act 1993* Integrated Planning and Reporting Framework requires Councils to prepare a *Resourcing Strategy* that includes an integrated *Asset Management Policy (AMP)*, *Asset Management Strategy (AMS)* and *Asset Management Plans (AMPs)* for various classes of physical assets which they manage.

This *AMS* includes the overarching council endorsed *AMP*. It sets the broad framework for undertaking asset management in a structured and coordinated way, outlines why and how asset management will be undertaken and provides key principles that underpin asset management at Blue Mountains City Council (BMCC).

In resourcing the implementation of the City's *Community Strategic Plan 2035 (CSP)* this *AMS* shows how the Council's existing asset portfolio will contribute to the service delivery requirements of the community both now, and into the future. In particular it:

- Sets out the affordable level of asset service provision over the next 10 years, given projected available funding;
- Outlines how the Council's assets will be effectively managed to achieve agreed levels of affordable service;
- Outlines the risks associated with the provision of the affordable level of service and how they will be responsibly managed;
- Outlines the requirements to ensure this *AMS* is achieved including implementation of an *Asset Management Improvement Program (AMIP)* that details the tasks required to achieve an appropriate level of asset management maturity; and
- Ensures the integration of the Council's asset management with its long term *CSP2035* and four-year *Delivery Program 2017-2021*.

In Section 3.4, Council's critical assets are defined as those that have a high community need and/or those that have a high risk profile. Risk management strategies for these are identified in Section 3.7 under Management of Risk.

The Section 3.7, the Asset Management Improvement Program outlines the specific actions required to improve Council's *Asset Management (AM)* capability. This is in response to the identified gaps in service provision, identification of improvements to risk management and to ensure that funds are appropriately allocated.

In summary, implementing this *AMS* will ensure facilities and infrastructure are provided in the most cost effective manner, through the creation, acquisition, maintenance, operation, renewal, rehabilitation and disposal of assets for present and future consumers, while managing risk.

It is intended that this Strategy be reviewed and updated on an annual basis to effectively guide the activities and decision making of BMCC into the future.

3.2 executive summary

The BMCC Local Government Area is unusual in that it has a very high ratio of infrastructure per resident compared to other urban councils due to factors such as urban development limited to a ribbon of 100 kilometres of ridge top within a mountainous World Heritage area. Furthermore, there are a number of challenges and constraints for asset management including natural disaster events and difficult to access terrain including steep gullies and cliff tops, which prove costly for construction and maintenance work.

For many years, maintenance and renewal funding for assets has been below the required level. This has resulted in widespread and gradual deterioration in asset condition. Additional funding from the 2015 Special Rate Variation is being used to reverse the decline in the City's ageing infrastructure. Over the next 10 years the level of asset service provision will need to be continually rebalanced against available funding while managing risk and engaging the community on service level trade-offs.

Going forward, this *AMS* presents a more favourable outlook through the implementation of the *LTFP* and its *Six Strategies for Financial Sustainability*.

The Council is committed to responsibly managing its assets to:

- Provide value for money services within available funding ;
- Manage residual asset risks;
- Align assets with Council's service responsibilities documented in the *CSP*;
- Ensure that assets are fit for purpose and meet established priority community need including reference to the spatial allocation of assets; and
- Improve AM planning, practices and systems.

To achieve this, the AM strategies to be implemented over the next 10 years are:

1. Ensure that BMCC's services and infrastructure are provided in a sustainable manner:
 - Align affordable levels of service to available revenue, while managing risks
 - Consider the risks and consequences of actions and inaction when prioritising asset renewal or maintenance and when allocating funding
 - Prioritise renewal and maintenance strategies that reduce lifecycle costs, reduce risk while maintaining asset function
 - Develop a Policy on surplus land assets and commercial property portfolio to achieve sustainable reinvestment in Council's assets
2. Develop and implement a suite of strategies to inform investment and ensure Council's assets sustainably meet community need:
 - Review and /or develop key strategies to drive investment in assets
 - Complete review of service levels provided by Council's assets
 - Plan for upgraded visitor infrastructure and facilities to match growth in visitor numbers and develop appropriate funding streams
 - Annually review IPART Special Variation allocation to ensure it continues to provide Best Value allocation of resources

- Continue to assess individual projects against adopted Best Value criteria
 - Annually update and align AM plans with agreed Community needs and adopted strategic objectives.
3. Safeguard BMCC assets, including physical assets and employees by implementing AM strategies and directing appropriate resources to:
 - Develop employee capability, capacity and competency in AM practice
 - Promote employee and Councillor stewardship and governance of AM
 - Annually allocate appropriate and sufficient financial & operational resources to implement AM strategies
 4. Demonstrate transparent and responsible asset management processes that align with best practice and statutory requirements and standards
 - Meet legislative requirements for asset management including maintenance of compliant *AMP, AMS, AMPs*
 - Achieve and sustain a target level of AM maturity across BMCC
 - Consult with community on AM priorities
 - Align the *CSP, AMS, Delivery Program* and budgets and assess BMCC financial health as per the Fit for the Future measures and inform decision makers.



3.3 asset management policy

The *AMP* sets the framework for the preparation of the Council's Strategy and Plan/s, while the Strategy supports and implements the Council's Policy.

The *AMP* is developed by Council's Asset Management Steering Group (AMSG). It is subsequently reviewed and endorsed by Council's Policy Control Group (PCG) and Executive Leadership team before being presented to Council. This version of the AMP was publicly exhibited in December 2016 and January 2017 before being adopted by Council in February 2017.

The *AMP* is provided as Appendix A – Adopted Asset Management Policy.

3.4 current asset position

Council's current asset stock

Currently BMCC is responsible for built assets valued at \$1.1B and of approximately 7,000 hectares of natural area assets. As shown in Table 3-1 the Council's built and natural assets support the delivery of a wide range of services, facilities and infrastructure to the community.

| Service | Assets that Currently Support Services |
|---------------------------|---|
| Aquatic & Leisure Centres | <ul style="list-style-type: none"> 5 Leisure and Aquatic Centres across the City <ul style="list-style-type: none"> Glenbrook Swim Centre Springwood Aquatic and Fitness Centre Lawson Swim Centre Katoomba Sport and Aquatic Centre Blackheath Pool |
| Burials & Ashes Placement | <ul style="list-style-type: none"> 9 Cemeteries with associated infrastructure including fencing, garden beds, signage, pathways, car parks and buildings |
| Commercial Activities | <ul style="list-style-type: none"> 2 Tourist Parks Approximately 20 buildings leased as residential and commercial properties some containing multiple shops Built assets supporting the Town Centre Service also support Economic Outcomes. |

| Service | Assets that Currently Support Services |
|--------------------------------|---|
| Community Development | <ul style="list-style-type: none"> • 14 Public Halls and Meeting Places • 12 Childcare Centres and Preschools • 2 Family Day Care administrative Centres – Lawson and Blaxland • 12 Childhood Health, Youth , Neighbourhood, Community Centre Buildings • 24 Parks and Sporting Amenities • 68 Associated buildings such as Sheds. Shelters and Toilets • Some of our facilities, including public toilets use the MLAK key system – allowing people with disabilities 24 hours a day access. |
| Cultural Development | <ul style="list-style-type: none"> • 2 major cultural facilities – Blue Mountains Cultural Centre and Blue Mountains Theatre and Hub • Various Community Buildings including 5 buildings used primarily for the Arts <ul style="list-style-type: none"> ○ Glenbrook School of the Arts ○ Springwood Art Centre; Braemar Community Gallery ○ Wentworth Falls School of the Arts ○ Blackheath Art Society Centre ○ Mt. Victoria Public hall / Cinema • Cultural Physical Assets such as monuments, war memorials etc • Cultural collections including art, local studies and memorabilia. |
| Economic Development & Tourism | <ul style="list-style-type: none"> • 2 Visitor Information Centres • Echo Point Precinct including parks, concourse and associated buildings |
| Emergency Management | <ul style="list-style-type: none"> • 260 Bush Fire Asset Protection Zones protecting 968 houses and other structures • Approximately 60km of firetrails • 26 Rural Fire Service (RFS) Buildings • 1 State Emergency Service Building • Blue Mountains Emergency Centre |
| Libraries & Information | <ul style="list-style-type: none"> • 6 Libraries across the city – Springwood, Katoomba, Blaxland, Lawson, Blackheath, Wentworth Falls • Library Collection (digital / non digital) |

| Service | Assets that Currently Support Services |
|--|--|
| Natural Environment | <ul style="list-style-type: none"> • Aquatic Ecosystems <ul style="list-style-type: none"> ○ 20ha of open water bodies ○ 193km creek lines ○ 189 Temperate Highland Peat Swamps (an endangered community under both State and Federal Legislation) on Sandstone (THPSS) • Approximately 7,000 ha Terrestrial Ecosystems |
| Sport & Rec – Natural Area Visitor Facilities (NAVF) | <ul style="list-style-type: none"> • Approximately 135km Walking Tracks • Approximately 86 Lookouts • 5 Campgrounds • Numerous shelters, pit toilets, toilets and other buildings |
| Sport & Rec - Recreation Facilities | <ul style="list-style-type: none"> • 72 sporting amenities, club houses and public toilet buildings plus approximately 75 shelters and sheds across: <ul style="list-style-type: none"> ○ 105 Parks ○ 22 Sports Grounds ○ 6 Skate Parks ○ 66 Sports Courts • with 54 play equipment settings |
| City Presentation | <ul style="list-style-type: none"> • Buildings e.g. Public Toilets, Community Buildings, Visitor Information Centres etc. • Street Furniture, litter bins, community noticeboards, garden beds, signage etc. • 22 Parks • 11 Commuter Carparks • Civil Infrastructure e.g. Footpaths, roads, drainage, bridges etc. |
| Transport & Public Access | <ul style="list-style-type: none"> • 693 km sealed road pavement • 75 km unsealed road pavement • 13,680 signs • 178km footpaths • 645 km Kerb and gutter • 31 bridges • 76,428 sqm sealed carparks • 157 bus shelters • 18,519m guardrails • 68 marked crossings • 19 roundabouts • 41 pedestrian refuges • 39 wombat crossings • 62 electronic Parking Sensors • 27 Parking Ticket Machines |

| Service | Assets that Currently Support Services |
|---------------------------|--|
| Waste Resource Management | <ul style="list-style-type: none"> • Katoomba Waste Management Facility (WMF) • Blaxland WMF • 2 Tankers for effluent removal (1 rigid, 1 articulated) • A fleet of Compaction trucks |
| Water Resource Management | <ul style="list-style-type: none"> • Over 35 stormwater / rainwater harvesting and reuse systems on Council Facilities • Over 20 raingarden / biofiltration systems • 13 Detention Basins • 191km Pipes • 3 km Box Culverts and Drains • 7,935 Pits • 53km Open Channels • 2,694 Headwalls • Over 200 Stormwater Quality Improvement Devices such as Gross Pollutant Traps • 15 Energy Dissipaters / Erosion Control |
| Good Governance | <ul style="list-style-type: none"> • Fleet • Operational buildings • Office equipment • IT equipment |

Table 3-1: Assets that support services

Critical assets

Critical assets are those assets that are likely to result in a more significant financial, environmental and social cost in terms of impact on organisational objectives¹. In relation to BMCC these are those assets that support services that have a high community need and/or a high risk profile.

| Council's Critical Assets | High Community Impact | High Risk |
|---|-----------------------|-----------|
| Transport assets i.e. roads and bridges | | ✓ |
| Stormwater assets | | ✓ |
| Assets supporting Council's emergency services activities | ✓ | ✓ |
| Waste management assets including landfills | | ✓ |
| Natural area visitor facilities | | ✓ |
| Council's natural assets | | ✓ |
| Recreation assets e.g. sports fields | ✓ | |

Table 3-2 BMCC critical assets

Risk management strategies for each of these are documented in *section 3.7* under 'This Strategy is split into two key areas:

¹ IPWEA, International Infrastructure Management Manual – 2011 Glossary

Management of risk

Council is currently reviewing its definition of critical assets to ensure it continues to align with Council's risk management policy and customer needs.

Condition of the Council's current assets

Asset condition is a measure of an assets physical integrity². It is critical to understanding required renewal and maintenance and levels of risk. Condition doesn't always directly reflect the capacity of the asset to provide the service. For more information on service levels provided by Council's assets, see *Section 3.5* under 'Current asset needs'.

The Council's built and natural assets have been assessed as being in good, fair or poor condition as described in Table 3-3.

| Overall rating | Description |
|----------------|----------------------------------|
| Good | Minor maintenance only required |
| Fair | Significant maintenance required |
| Poor | Renewal required |

Table 3-3: Description of condition assessments

As shown in *Figure 3-4*, currently it is estimated that:

- 21% of the Council's built assets are in poor condition, 51% in fair condition and 28% in good condition
- 17% of the natural assets managed by Council are in poor condition, 34% fair and 49% good condition.

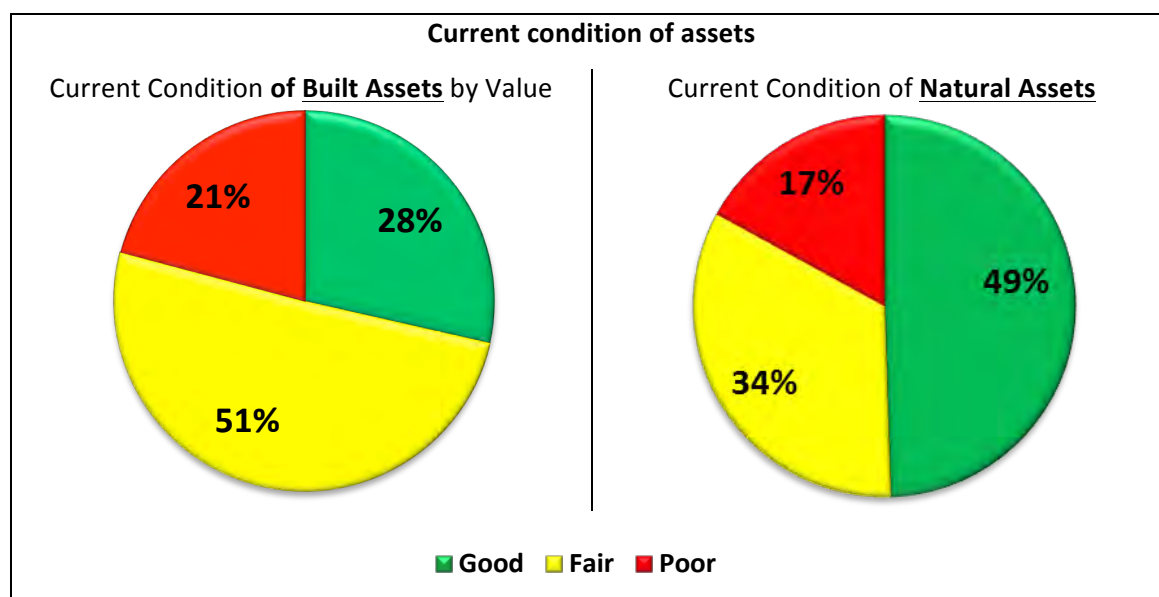


Figure 3-4: Current condition of assets

² IPWEA, International Infrastructure Management Manual – 2011 Section 2.5

Figure 3-5 illustrates the current condition of all assets by each of the Council's services.

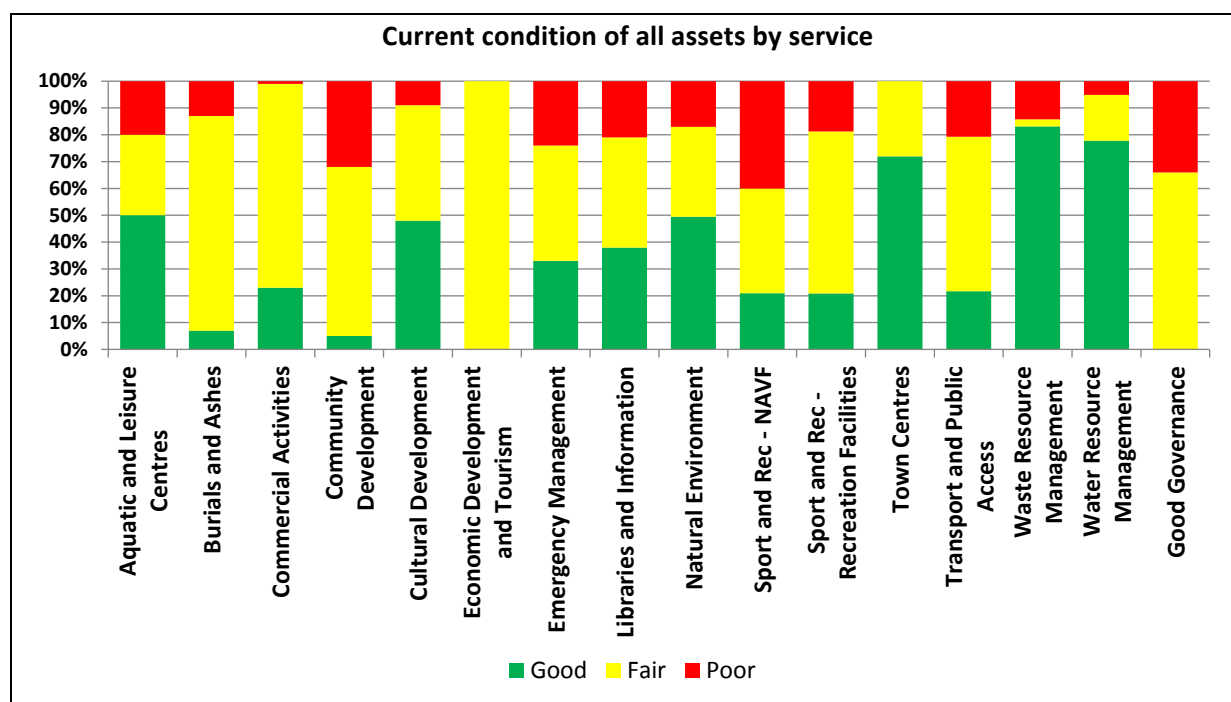


Figure 3-5: Current condition of all assets by service

Value of Council's assets

The value of physical assets which the Council manages is determined by Local Government standards in asset valuation. The following sub-sections explain the valuation methodology; describe the current value of built assets; and the approach to valuing and managing natural assets.

Built asset valuation methodology and depreciation

Council's noncurrent assets are progressively revalued to fair value in accordance with a staged implementation as advised by the Office of Local Government or where there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date.

On initial recognition, an asset's cost is measured at its fair value, plus all expenditure that is directly attributable to the acquisition. Where infrastructure, property, plant and equipment assets are acquired for no cost or for an amount other than cost, the assets are recognised in the financial statements at their fair value at acquisition date – being the amount that the asset could have been exchanged between knowledgeable willing parties in an arm's length transaction.

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight line method in order to allocate an assets cost (net of residual values) over its estimated useful life.

Where appropriate and evidence based, sub-components of assets are separately depreciated in accordance with real world experience.

In 2012-2013 Council reviewed its depreciation as a result of improved asset and financial data relative to useful life and fair valuation. Depreciation amounts, which form a significant part of the Council's current deficit operating result, were materially reduced because of this review.

All asset residual values and useful lives are reviewed and adjusted (where appropriate), at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Council plans to complete a full revaluation of infrastructure assets for the 2017-18 financial year unless material changes occur before then.

Built asset value

Figure 3-6 shows the value of the Council's built assets expressed as a percentage of the \$1.1B total built asset value.

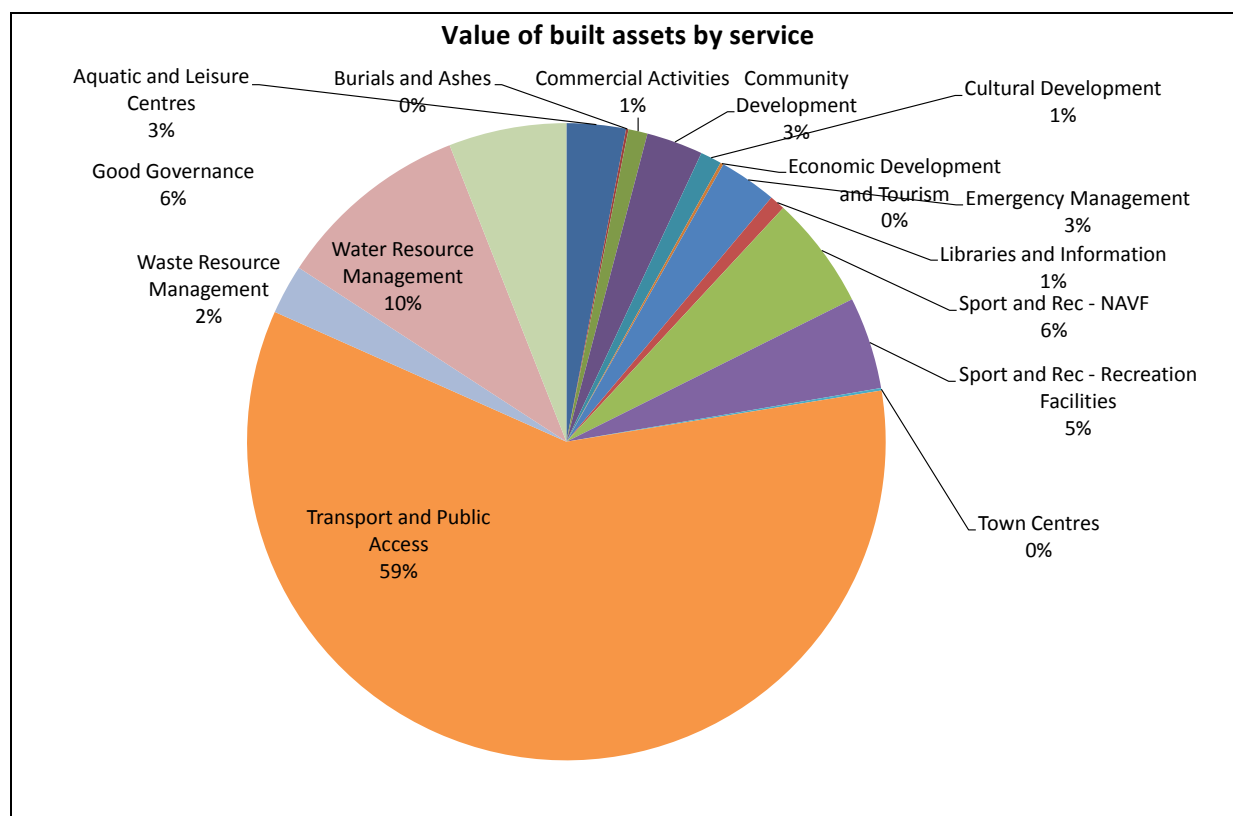


Figure 3-6: Value of built assets by service

Civil infrastructure associated with roads, transport and stormwater makes up 69% of the total asset value. Specialist buildings have been assigned to the various services but overall are 14% of built asset value.

Figure 3-4 shows that 21% of the value of BMCC built assets are in poor / very poor condition, in other words, approximately \$210M of assets in poor or very poor condition.

The current replacement value and depreciation of Council's built assets is shown in *Table 3-7*.

| Service | Current Replacement Cost \$'000 | Depreciated Replacement Cost \$'000 | Depreciation 2012-13 \$'000 |
|-------------------------------------|---------------------------------|-------------------------------------|-----------------------------|
| Aquatic & Leisure Centres | 30,040 | 18,119 | 447 |
| Burials & Ashes Placement | 1,222 | 553 | 24 |
| Commercial Activities | 9,734 | 4,831 | 105 |
| Community Development | 28,692 | 12,386 | 341 |
| Cultural Development | 10,755 | 6,026 | 109 |
| Economic Development & Tourism | 1,589 | 639 | 16 |
| Emergency Management | 29,256 | 24,362 | 143 |
| Libraries & Information | 7,879 | 3,597 | 358 |
| Sport & Rec - NAVF | 57,556 | 38,285 | 585 |
| Sport & Rec - Recreation Facilities | 46,915 | 21,003 | 1,024 |
| Town Centres | 1,276 | 802 | 18 |
| Transport & Public Access | 594,130 | 373,938 | 6,811 |
| Waste Resource Management | 25,213 | 18,324 | 720 |
| Water Resource Management | 98,761 | 74,824 | 888 |
| Good Governance | 59,762 | 14,060 | 4,215 |
| Total | 1,002,780 | 611,746 | 15,804 |

Table 3-7: Cost of built assets

Note: the data in *Table 3-7* does not perfectly align with the Council's *LTFP 2017-2027* asset depreciation and current replacement cost due to the following:

- The *LTFP* includes the value of land, this *AMS* does not; and
- Issues in data maturity, which will be improved in future versions of the *AMS*. This work has been included in the *AMIP*. The difference in depreciation and valuation figures once land has been removed is less than 1% and is deemed not material.

Depreciation will continue to be reviewed annually as asset data and knowledge improves.

Natural asset value

The Blue Mountains is an area of outstanding natural value. It's World Heritage status and inclusion into the National Landscapes program (Tourism Australia) is recognition of the iconic nature of the area, the natural antiquity of the area, the biological and geological diversity, exceptional beauty, and cultural and spiritual values it holds. The majority of Council's natural assets also form a buffer zone between the urban areas and the Greater Blue Mountains World Heritage Area.

The Council manages a range of natural assets that underpins the identity of the region and is a significant driver of the local recreation and tourism industry as well as contributing to community health and wellbeing. There is a strong expectation that these assets will be managed to have a high level of natural integrity and will be in a healthy, biologically functional condition. Furthermore, the condition of these assets are inextricably linked with the cultural values vested in these landscapes by the Gundugurra and Darug peoples.

The natural assets are comprised of natural bushland made up of terrestrial and aquatic ecosystems. This includes streams and creek lines, open freshwater bodies, Endangered Ecological Communities and other rare, Threatened or Scheduled vegetation.

Although not explicitly required by legislation, the Council has committed to managing all its assets, both built and natural, under a consistent approach within the national asset management framework³. The inclusion of natural assets into our asset planning is formative, innovative and necessary given the impact our natural assets have on the City of Blue Mountains. However, it is recognised that there are as yet no definitive national standards for natural areas.

While the processes around the valuation of the built assets is to recognise national standards, the Council has also attempted to estimate the replacement value of its natural area assets based on a similar approach to that used for built assets. Considerable work is currently underway by Council to establish a fair value for these complex assets comprising diverse ecosystems, habitats and catchments. Quantification of the value and defining the replacement cost for natural assets however, is an emerging science. In the absence of an agreed national standard methodology for valuing natural area assets, work will continue on developing a suitable formula for recognising the real value of this important asset group, which underpins the amenity, environment, community wellbeing and economy of the Blue Mountains.

At present, natural assets are not formally valued or depreciated. While this is a work in progress, figures relating to valuation or depreciation have not been included in this version of the AMS.

Funding gap

While Council delivers a balanced cash budget each year, in order to maintain current service levels, meet required standards on renewal and manage risk over the next 10 years, as shown in *Figure 3.8* on average it is estimated that there would be an estimated shortfall of \$16M per annum over the next 10 years between required funding and available revenue.

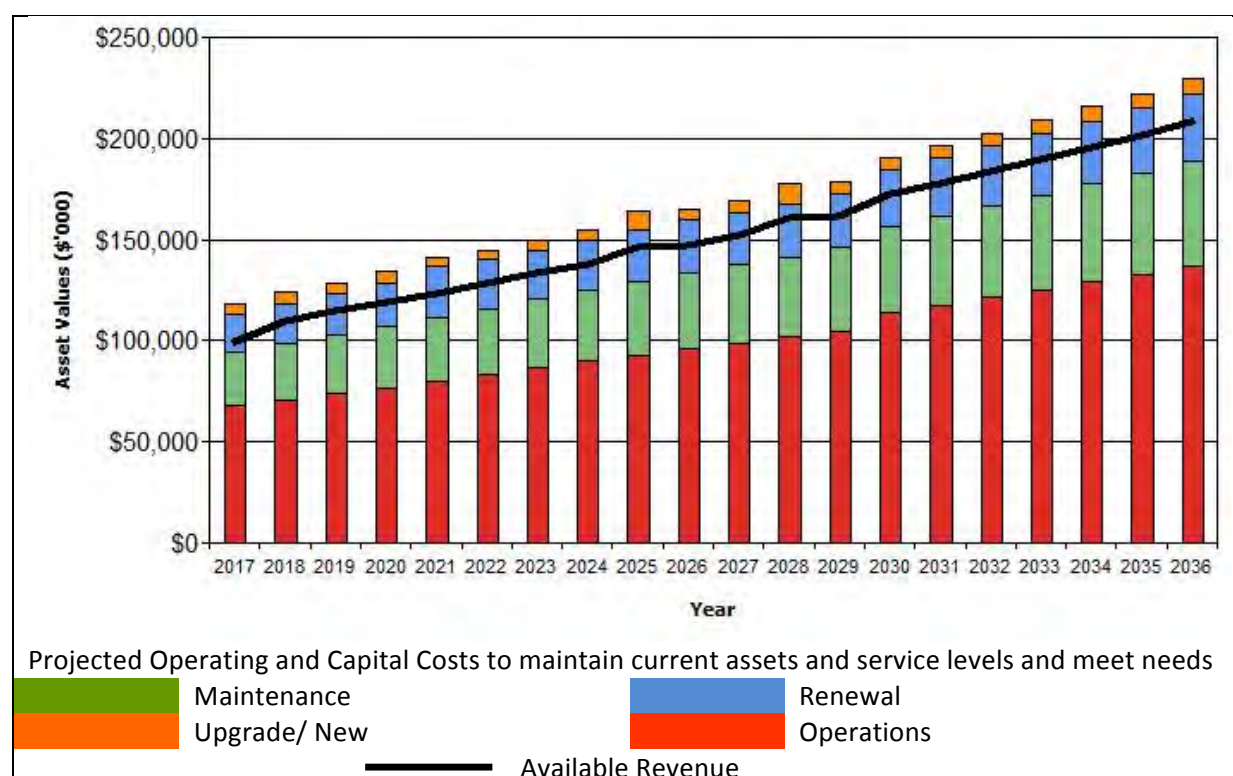


Figure 3.8 - Asset Funding Gap

³ Local Government and Planning Ministers' Council 2009, "Local Government Financial Sustainability Nationally Consistent Frameworks"

This shortfall has been caused by increases in service levels in targeted areas to meet community need, cost shifting from state and federal governments, reductions in the level of grant funding and increases in governance requirements. The challenge is increasing over time.

This shortfall in funding has implications for the condition of Council's assets and the ability of the Council to deliver services to the levels required. By implementing this Asset Management Strategy Council will eliminate this backlog, ensure that it lives within its means, provides needed services to the community and effectively manage risk.

Asset management practices

Within BMCC, the facilitation of the asset planning processes and systems is centralised. Individual AMPs are developed by relevant experts with input from relevant staff across Council.

The structure for Asset Planning and Delivery within BMCC is shown in this section under 'Asset management structure and responsibilities'.

The AMMSG is Council's core committee responsible for AM. The AMMSG is responsible for:

- Provide input into Governance and Risk and Best Value Steering Group responsibilities with best available evidence
- Monitor and report to ELT on AM compliance and progress
- Provide input into the development of and endorse the Asset Management IPR documents
- Champion the implementation of the Asset Management IPR documents
- Act as Project Control Group for the AMIP within the Asset Management Strategy – being monitor and control the project and provide advice to Project Director around Project deliverables, resolutions of issues and policy decisions, scope changes, and direction and guidance of project

This is a cross organisational team that reports directly to the ELT and the GRSG. The role of the AMMSG will evolve as organisational maturity increases.

As at January 2017, approximately 20% by value of built assets are still recorded in various subsidiary databases with poor linkages with financial and other systems. To resolve this Council is currently implementing an AM Information System for all Council's infrastructure and natural assets and provide links with Council's financial systems. This task forms part of the *AMIP*.

Accounting and financial systems

The main financial system used is SmartStream for General Ledger, Accounts Payable and financial reporting. Pathways is used for Accounts Receivable and receipting. BIS is used for management reporting.

The LTFP is developed using information from these sources downloaded to a spreadsheet application with assumptions and projections added.

Accountabilities for financial systems

The Responsible Accounting Officer is the Chief Financial Officer.

Accounting standards and regulations

Financial statements are general purpose financial statements and are prepared in accordance with

- Australian Accounting Standards,
- Other authoritative pronouncements of the Australian Accounting Standards Board,
- Urgent Issues Group Interpretations,
- the Local Government Act (1993) and Regulation, and
- the Local Government Code of Accounting Practice and Financial Reporting.

Capital/maintenance threshold

Items of infrastructure, property, plant and equipment are not capitalised unless their cost of acquisition exceeds \$5,000. This Policy is being reviewed as part of the AMIP.

Asset management system

The following systems are used for asset management within BMCC:

- Authority Asset Management – Asset Management System/Asset Register
- MapInfo – Mapping of assets
- SmartStream – Fixed Asset Register
- AMAX Works Request Register (WRR) – maintenance and works scheduling and recording

Asset registers

There are asset registers within Authority Asset Management, SmartStream, MapInfo, WRR and Pathways (customer service requests linking to WRR).

There is currently an interface between the Authority Asset Management System and the MapInfo.

Linkage from asset management to financial system

There is currently no direct link between SmartStream (the Financial Asset Register) and the Asset Management System. Data is manually updated within SmartStream as required. This is addressed further in the AMIP.

Accountabilities for asset management system and data maintenance

Champions are appointed for each asset class. They are responsible for

- Data maintenance
- Developing targets and frequency for asset condition inspections
- Maintaining matching data within MapInfo
- Developing asset hierarchy within the Asset Management System including any changes or additions required to existing hierarchy
- Determining required system improvements
- Auditing data

Operations staff complete asset condition inspections as developed by the Champions

The Assets Business Analyst is responsible for

- System maintenance
- User maintenance
- Deletion of assets
- Process development and monitoring
- Liaison with IT
- Basic system support for users and Champions
- Training
- Data configuration
- Data quality review and monitoring

Asset management core competencies

The National Financial Sustainability Frameworks⁴ on Financial Planning and Reporting, and Asset Planning and Management, endorsed by the Local Government and Planning Ministers' Council (LGPMC), require councils to adopt a longer-term approach to service delivery and funding. The National Assessment Frameworks define 10 key elements and 11 core competencies to support these.

Council has measured its asset management maturity growth against these core competencies since 2011. To date, two assessments have been completed by JRA Associates (2011 and 2013) and internal assessments have been completed twice (2012 and 2014). The Council's maturity assessment for core competencies is summarised below in Figure 3-9: Asset management maturity assessment. The assessment score ranges from 0-5 with a score of 3 indicating achievement of core maturity, and a score of 5 indicating advanced maturity. The Council is generally scoring close to core maturity level with further development required in a few key areas as outlined in the *AMIP* in section 3.7.



⁴ Champion, C. & Patterson, L. 2012. National Assessment Frameworks For Local Government Asset Management and Financial Planning Implementation Proposal Paper

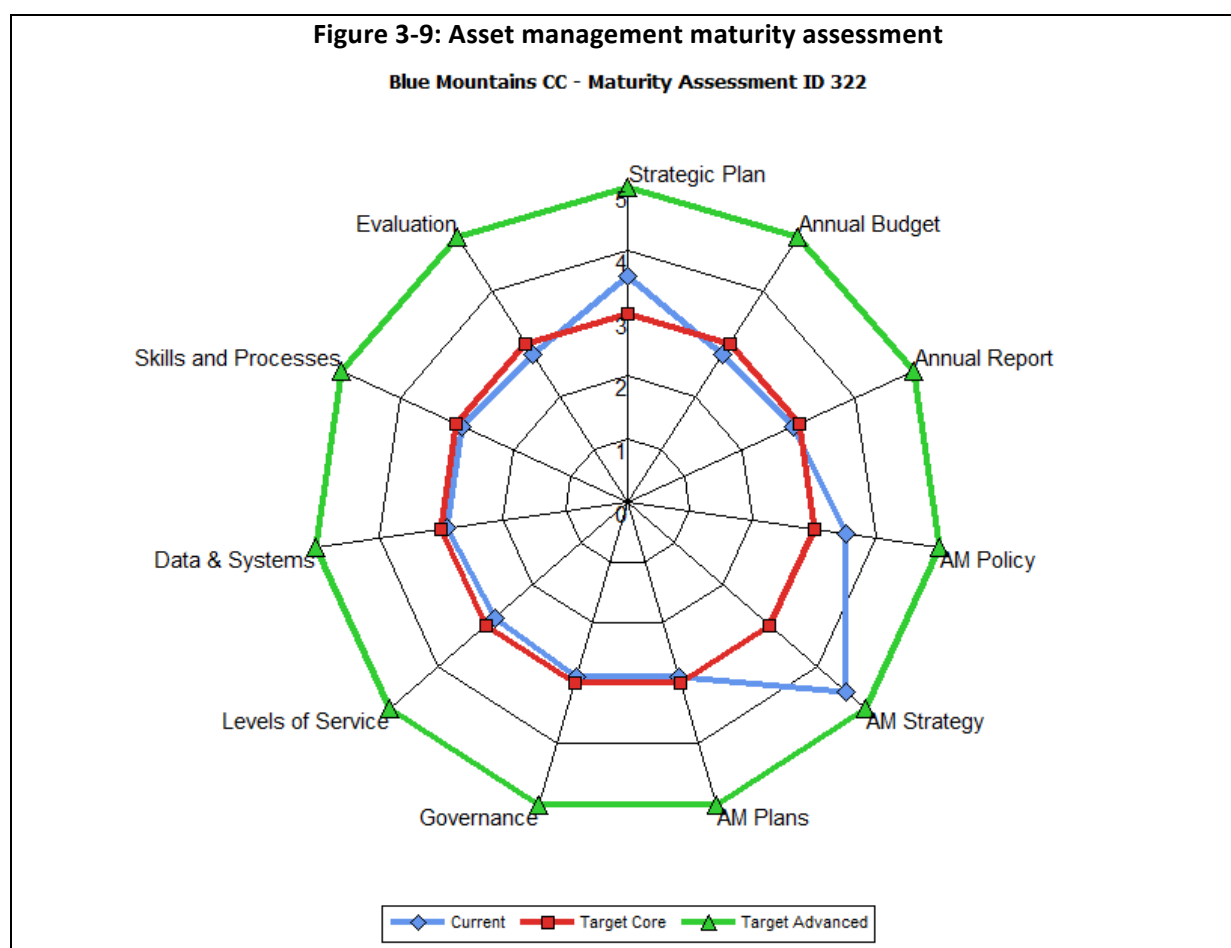


Figure 3-9: Asset management maturity assessment

The NAMS.PLUS Maturity Assessment uses a series of questions that have been developed around asset management maturity competencies linked to the 10 key elements of the LGPMC Financial Sustainability Frameworks. The questions have been agreed between stakeholders to facilitate a nationally consistent evaluation of implementation.

Since this strategy was last updated, the ISO 55000 series of standards on asset management have been introduced. Going forward, Council will use these as a basis of assessing Asset Management maturity. A maturity assessment against these standards is being completed as part of the AMIP.

Asset management structure and responsibilities

The structure for Asset Management within BMCC is represented in Figure 3-10 below.

Asset Management Governance Structure

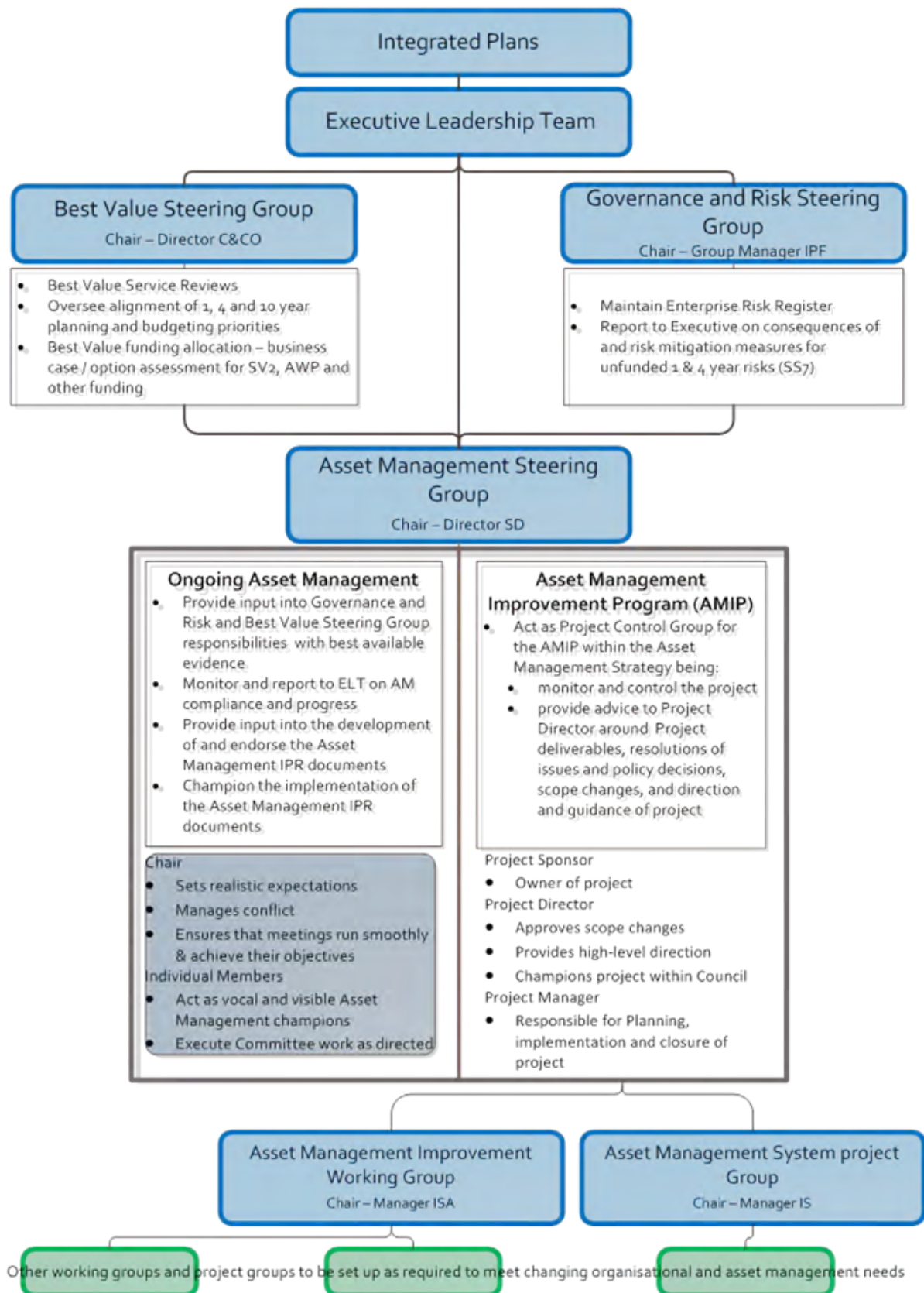


Figure 3-10: Asset management structure and responsibilities

3.5 city needs

Current asset needs

The Council provides assets in order to meet the needs of the City and Community. This includes assets on crown (NSW State Government) land for which it has been assigned responsibility e.g. emergency services buildings, walking tracks and lookouts.

The ability of an asset to meet community need is assessed through consideration of:

- Function: Does the asset do what it is provided to do?
- Capacity/ level of use: Is the asset an appropriate size for the usage it has?

Function

As shown in *Figure 3-10*, 26% of built assets currently have poor function. This represents the percentage of assets that don't meet Australian Standard or community need, the resilience of council and council assets to manage and respond to natural disasters etc.

Management of natural assets includes service activities pertaining to clean creeks and waterways, and protection and restoration of bushland. Poor function for Council's natural assets represents the degree of management intervention required to maintain or improve condition. This can relate to the degree of degradation, the environmental sensitivity and/or conservation value or natural assets. Currently 17% of Council's natural assets have poor function.

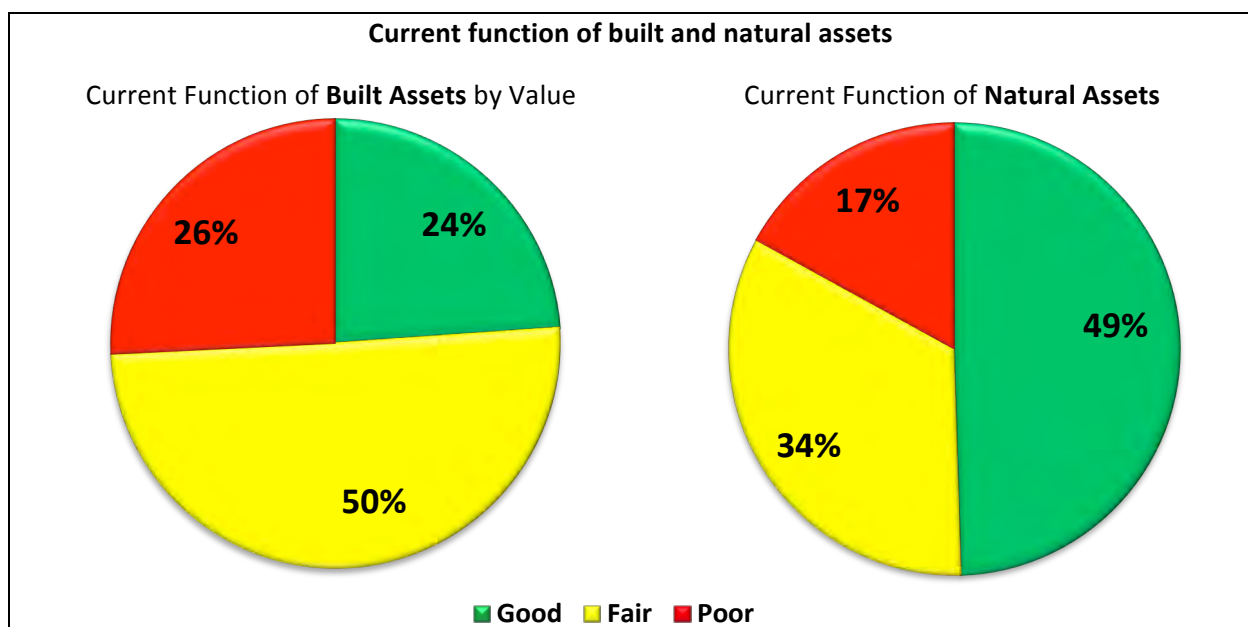


Figure3-11: Current function of built and natural assets

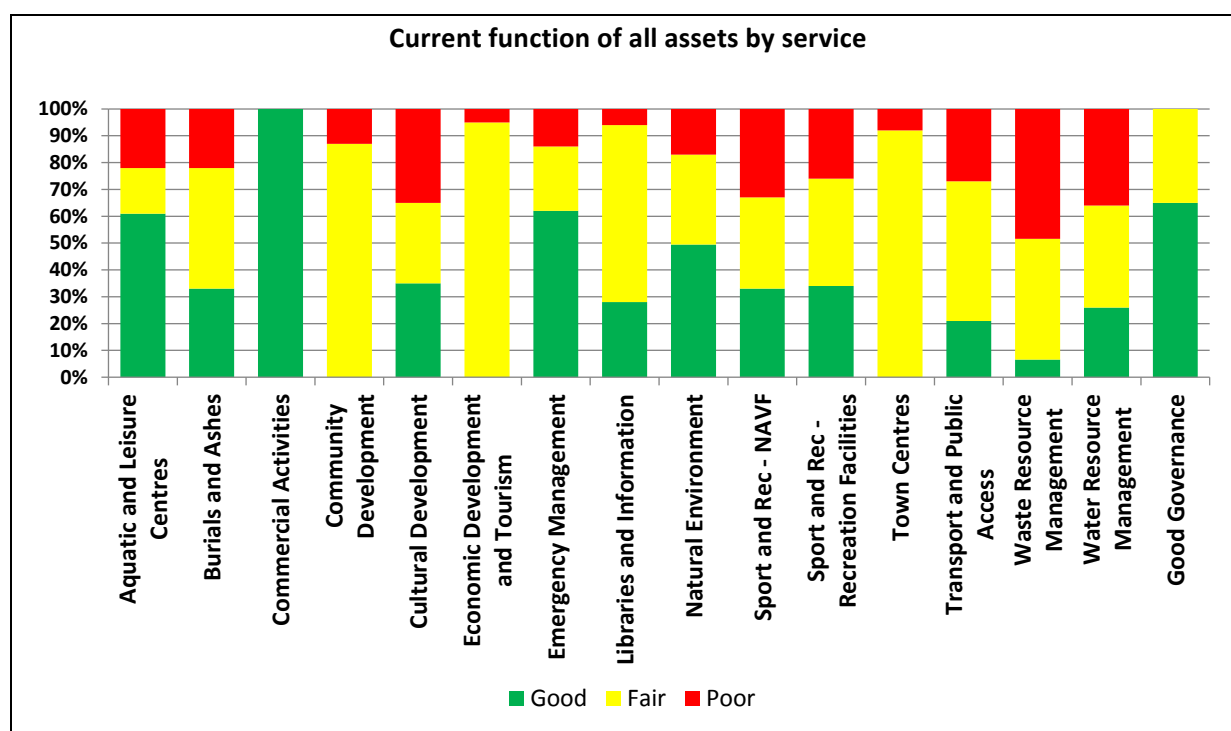


Figure 3-12: Current function of all assets by service

Capacity / utilisation

As shown in *Figure 3-13*, 22% of built assets currently have poor capacity/ utilisation. This represents a number of factors including low utilisation of Blackheath Pool, underutilisation of recreation facilities in the upper mountains, under capacity recreation facilities in the lower mountains, the lack of extent and capacity of the stormwater network etc.

Poor capacity in Council's natural assets relates to the condition of the ecosystem. The better the condition, the greater the capacity in terms of resilience and the ability to act as an environmental sink for stormwater and other urban impacts and to respond to anthropogenic change such as increased frequency of bushfire or other changed environmental conditions associated with climate change.

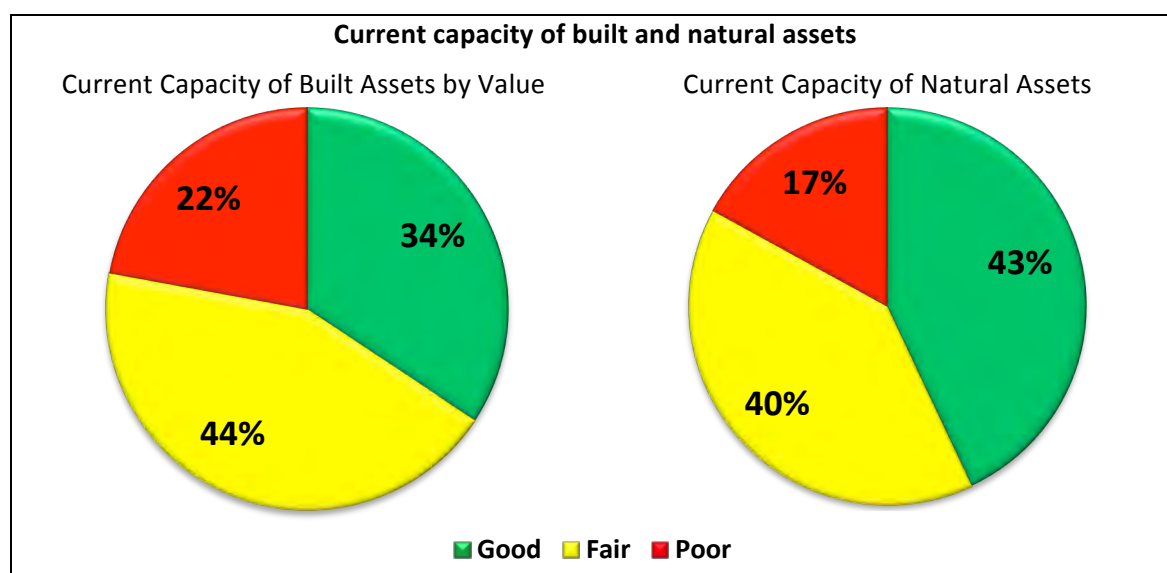


Figure 3-13: Current capacity of built and natural assets

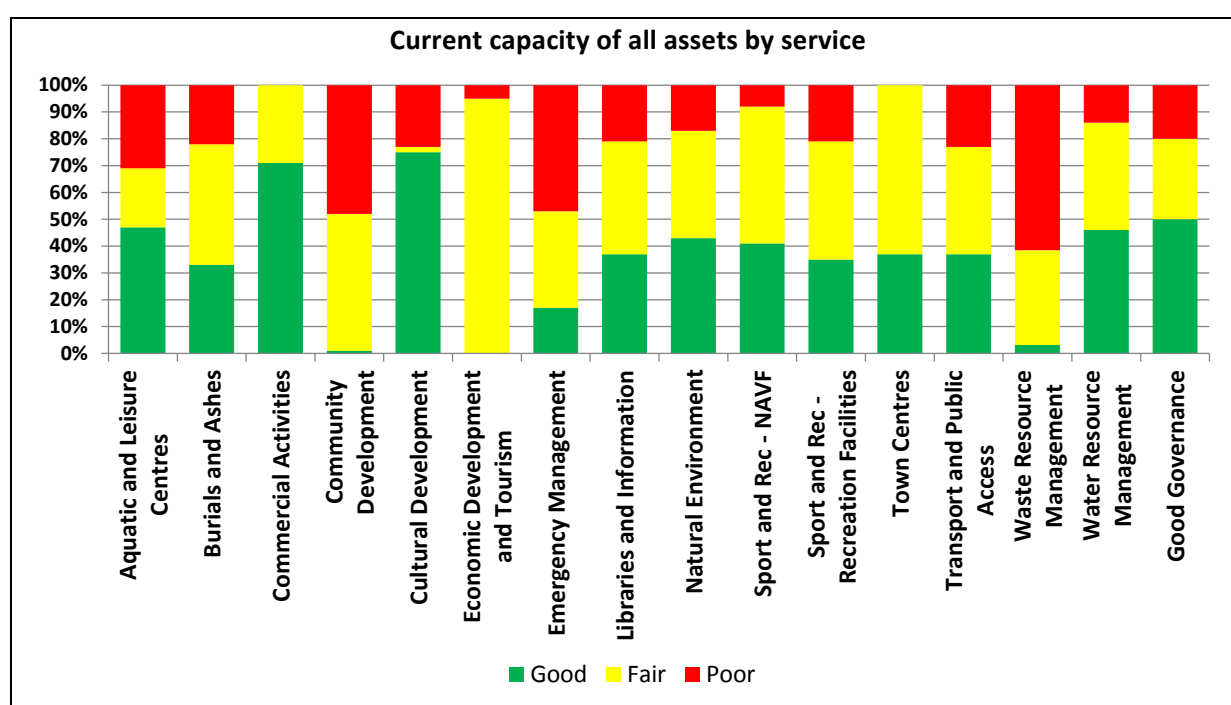


Figure3-14: Current capacity of all assets by service

Future asset needs

A number of factors detailed below will affect the future needs of the city and community. The impacts of these will be assessed and monitored on an ongoing basis to ensure that projected changes are incorporated into future iterations of this Strategy. The implications of these changes are both positive e.g. improved technology could result in safer work environments or negative e.g. changes to storm frequency and intensity could put greater pressure on emergency services. Scoping of these changes allows the Council to be well placed to make the most of any potential benefits and minimise risks.

Changing demographics

The present population is predicted to remain relatively static over the next 10 – 20 years. However, changes in population growth and visitation numbers may occur with the State government's plans to grow population and employment opportunities in Parramatta and Penrith, and the Federal government's announcement for a second airport in the next 15 years at Badgerys Creek. *Local Environment Plan 2015*, whilst it did not increase the area of medium density housing around town centres, has an ongoing program deliverable of preparing a Local Housing Strategy that would consider options around increasing density in key towns and villages. This strategy is proposed to be carried out over the next two years.

The overall trend of an increasingly older population and those with disabilities will result in an increased demand for localised facilities with good accessibility. There will be a need to develop resilience and linkages of facilities for disaster response and recovery to ensure that vulnerable and at risk members of the community are able to access safe areas. There have also been increasing numbers of residents reporting that they need help in their day to day life due to disability⁵.

Changing patterns of use of services

The Blue Mountains City is located at the western fringe of the Sydney Metropolitan area and receives a high level of local tourism from Sydney residents. It has, historically, been a hub for nature-based recreation and tourism, with activities such as bushwalking having taken place since the early 1900's.

Growth in Sydney's population will increase demand on tourism facilities and other assets such as pathways, roads and car parks in the Blue Mountains. In addition there is a trend to an increase in popularity of extreme sports, such as rock climbing and mountain biking. This will increase the use of existing assets sometimes accelerating wear and tear and may also lead to creation of unauthorised assets on council owned or managed land.

Pressure on Council-managed roads is likely to continue to increase as the trend towards increasing car use continues.

Natural disasters and other natural events

Australia is exposed to both frequent and large natural disasters. There has been an upward trend in both the number and cost of natural disasters in Australia and around the world⁶.

The Intergovernmental Panel on Climate Change report on Climate Change (2007) states that *"Heatwaves and fires are virtually certain to increase in intensity and frequency (high confidence). Floods, landslides, droughts and storm surges are very likely to become more frequent and intense, and snow and frost are very likely to become less frequent (high confidence)"*⁷.

The potential for these natural events to occur more frequently and /or with greater intensity could result in major impacts for asset managers. These include changing engineering standards, increased

⁵ (Australian Bureau of Statistics, Census of Population and Housing, 2006 and 2011 (Usual residence data)

⁶ Latham, C. McCourt, P. & Larkin, C. 2010. Natural Disasters in Australia: Issues of funding and insurance. Prepared for the Institute of Actuaries of Australia's (Institute) 17th General Insurance Seminar.

⁷ Hennessy, K., B. Fitzharris, B.C. Bates, N. Harvey, S.M. Howden, L. Hughes, J. Salinger and R. Warrick, 2007: Australia and New Zealand. *Climate Change 2007: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, M.L. Parry, O.F. Canziani, J.P. Palutikof, P.J. van der Linden and C.E. Hanson, Eds., Cambridge University Press, Cambridge, UK, 507-540.

legislative requirements on council emergency activities, direct impacts to assets; for example, landslips or windstorms destroying council assets or the requirements to create new assets to provide transport linkages in the event of a disaster.

Technology

Technological advances and associated community expectations can impact upon the assets provided to the community. For example, the development of e-books, audiobooks, Wi-Fi and the internet has changed the structure of the Library facilities and the subsequent provision of services.

Other changes to technology may impact upon the way we build, inspect and manage our assets. For example, the ability to remotely access and inspect infrastructure such as subterranean pipes using CCTV allows Council to do so in a manner that is efficient, cost effective and does not put staff in a potentially unsafe situation.

Changing legislation and standards

Changes to legislation and technical standards to will dictate the provision of particular assets (i.e. disability access infrastructure, fire and flood management controls) and the technical standards to adhere to when renewing existing or creating new assets.

There are also a number of State and Regional Plans which outline objectives, goals and priority areas that will guide the development and management of particular assets.



3.6 long term asset plan

Council's objectives are to provide well planned and managed assets that support agreed affordable levels of service. It does this through aligning asset provision to available revenue and Council responsibilities within the CSP and ensuring appropriate asset management practices are followed.

The Asset Management Strategy (AMS) puts forward a 10 year strategy for managing assets which aligns with the Council's Long Term Financial Plan (LTFP). The LTFP directs the available funding for assets and the proposed asset strategy identifies asset service levels that are affordable and achievable, given the available funding and assuming implementation of the outlined asset strategies. The Council is committed to living within its means by managing its asset cost effectively and responsibly, within available funding and by managing risk consequences arising from affordable levels of service. The AMS and LTFP aim to ensure investment of community wealth in infrastructure is well managed and sustainable over the long term.

Asset service levels

For built assets, achieving the LTFP strategies would result in an improvement to the degree of asset condition deterioration over 10 years, from 21% of assets being in poor condition currently to 17% in 10 years.

The detailed use of funding for each service can be found in the relevant Asset Management Plan. This high level Asset Works Program by service can be found in Appendix B - Asset Works Program to 2025-2026

| Measure | % Poor 2016 | % Poor 2024 | Change in % Poor |
|------------|-------------|-------------|------------------|
| Condition: | 21% | 17% | 4% ↓ |
| Function: | 26% | 16% | 10% ↓ |
| Capacity: | 22% | 14% | 8% ↓ |

Table 3-14: Projected change in service levels for built assets

| Measure | % Poor 2014 | % Poor 2024 | Change in % Poor |
|------------|-------------|-------------|------------------|
| Condition: | 17% | 18% | 1% ↑ |
| Function: | 17% | 18% | 1% ↑ |
| Capacity: | 17% | 16% | 1% ↓ |

Table 3-15: Projected change in service levels for natural assets

Figure 3-16 and Figure 3-17 show the current and projected service levels for built and natural assets when the Asset Strategies are implemented.

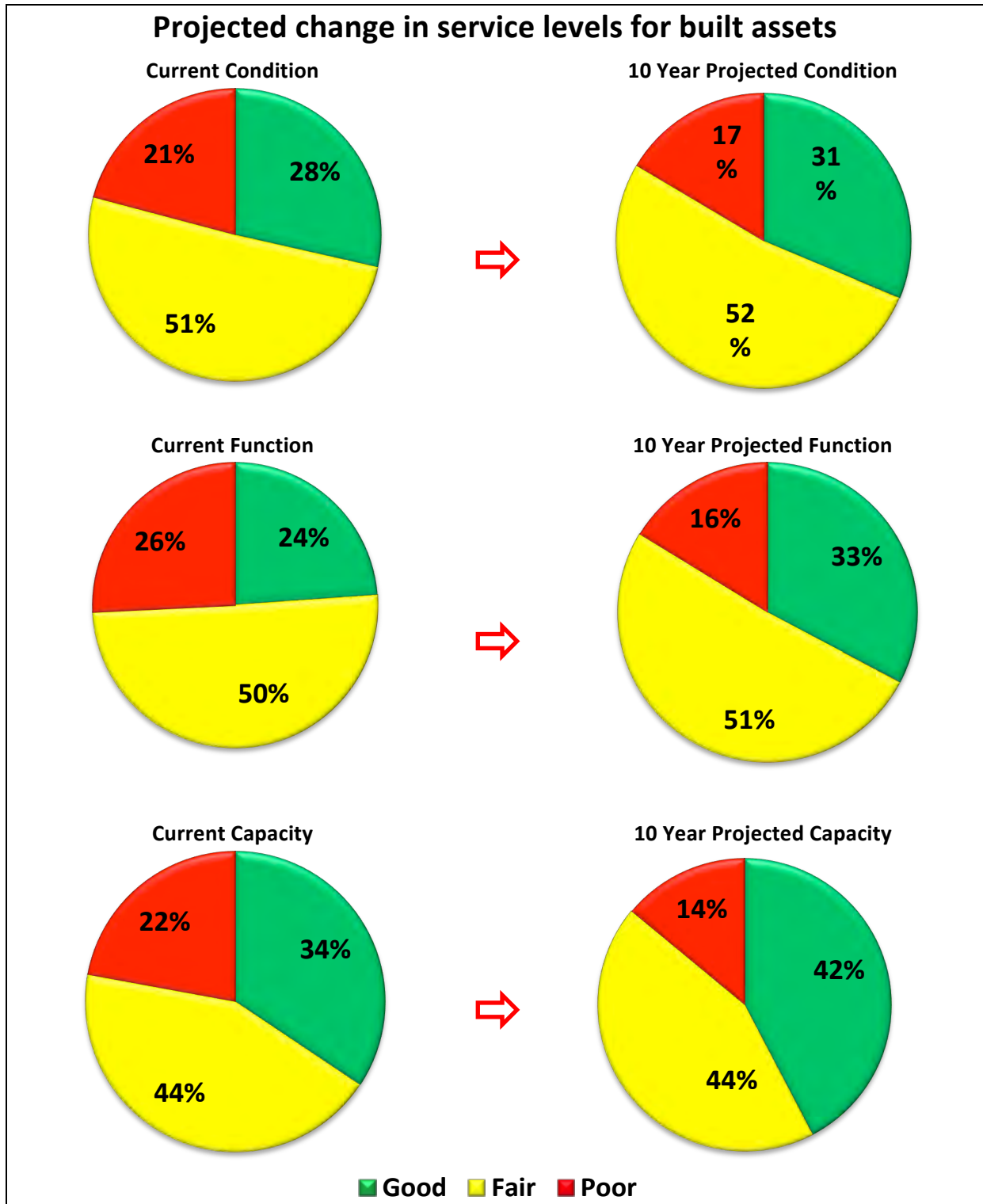


Figure 3-16: Projected change in service levels for built assets

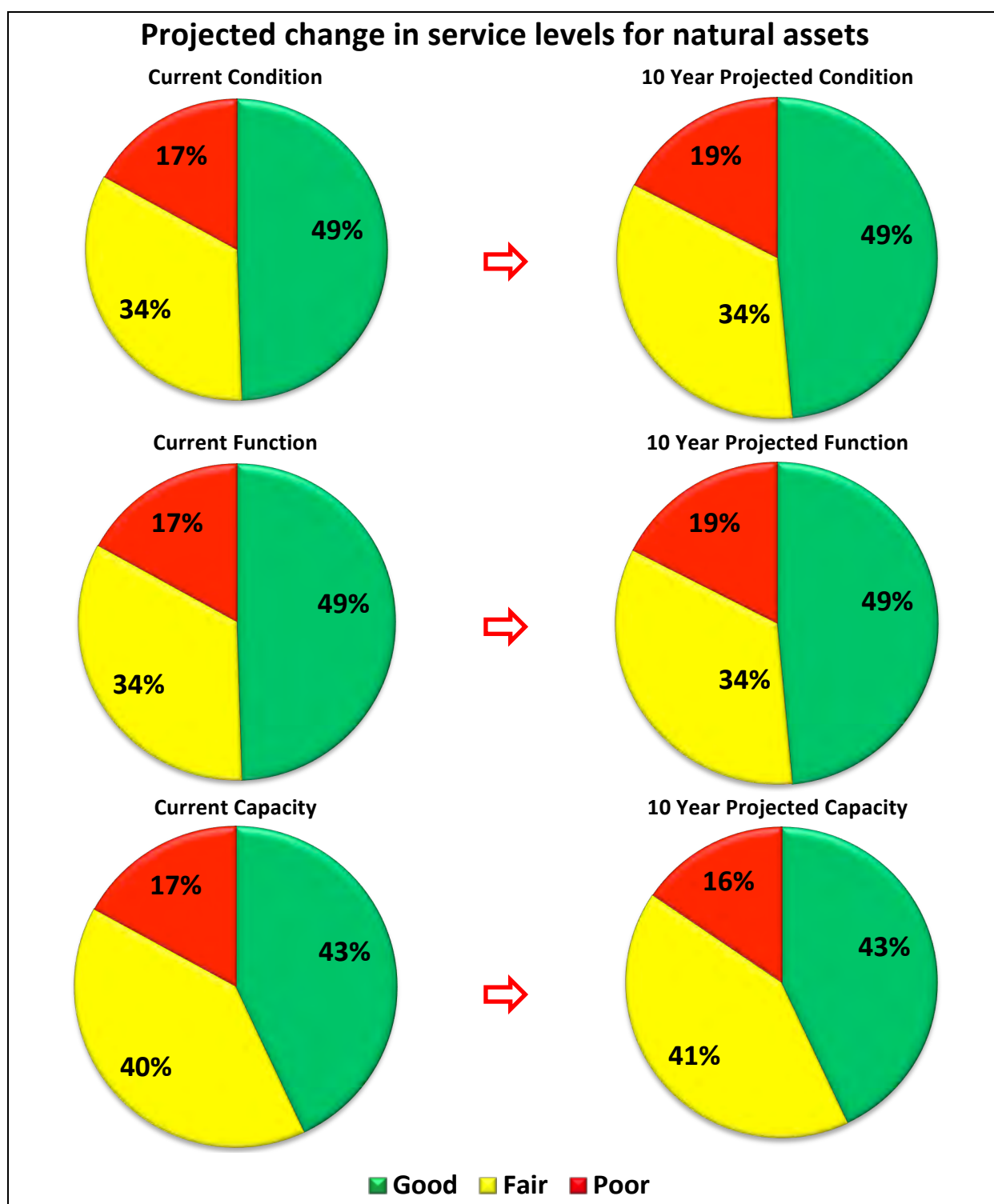


Figure 3-17: Projected change in service levels for natural assets

3.7 asset management strategies

In implementing asset service levels over the next 10 years which can be achieved within available revenue, it is necessary for a number of actions to be implemented. To do this Council has developed the following Asset Strategies:

1. Ensure that BMCC's services and infrastructure are provided in a sustainable manner within available funding:
 - Align affordable levels of service to available revenue
 - Consider the risks and consequences of actions and inaction when prioritising asset renewal or maintenance and when allocating funding
 - Prioritise renewal and maintenance strategies that reduce lifecycle costs, reduce risk while maintaining asset function
 - Develop a Policy on surplus land assets and commercial property portfolio to achieve sustainable reinvestment in Council's assets
2. Develop and implement a suite of strategies to inform investment and ensure Council's assets sustainably meet community need:
 - Review and /or develop key strategies to drive investment in assets
 - Complete review of service levels provided by Council's assets
 - Plan for upgraded visitor infrastructure and facilities to match growth in visitor numbers and develop appropriate funding streams
 - Annually review IPART Special Variation allocation to ensure it continues to provide Best Value allocation of resources
 - Continue to assess individual projects against adopted Best Value criteria
 - Annually update and align AM plans with agreed Community needs and adopted strategic objectives.
3. Safeguard BMCC assets, including physical assets and employees by implementing AM strategies and directing appropriate resources to:
 - Develop employee capability, capacity and competency in AM practice
 - Promote employee and Councillor stewardship and governance of AM
 - Annually allocate appropriate and sufficient financial & operational resources to implement AM strategies
4. Demonstrate transparent and responsible asset management processes that align with best practice and statutory requirements and standards
 - Meet legislative requirements for asset management including maintenance of compliant *AMP, AMS, AMPs*
 - Achieve and sustain a target level of AM maturity across BMCC
 - Consult with community on AM priorities
 - Align the *CSP, AMS, Delivery Program* and budgets and assess BMCC financial health as per the Fit for the Future measures and inform decision makers.

These strategies align with and implement Council's Six Strategies for Financial Sustainability as documented in the LTFP:

Strategy 1: Avoid shocks

Strategy 2: Balance the annual budget (cash and operating result including depreciation)

Strategy 3: Manage borrowings and investments responsibly

Strategy 4: Increase income

Strategy 5: Review and adjust services and service levels in consultation with community

Strategy 6: Increase advocacy and partnerships

These are shown in Figure 3-18: Six Strategies for Financial Sustainability.

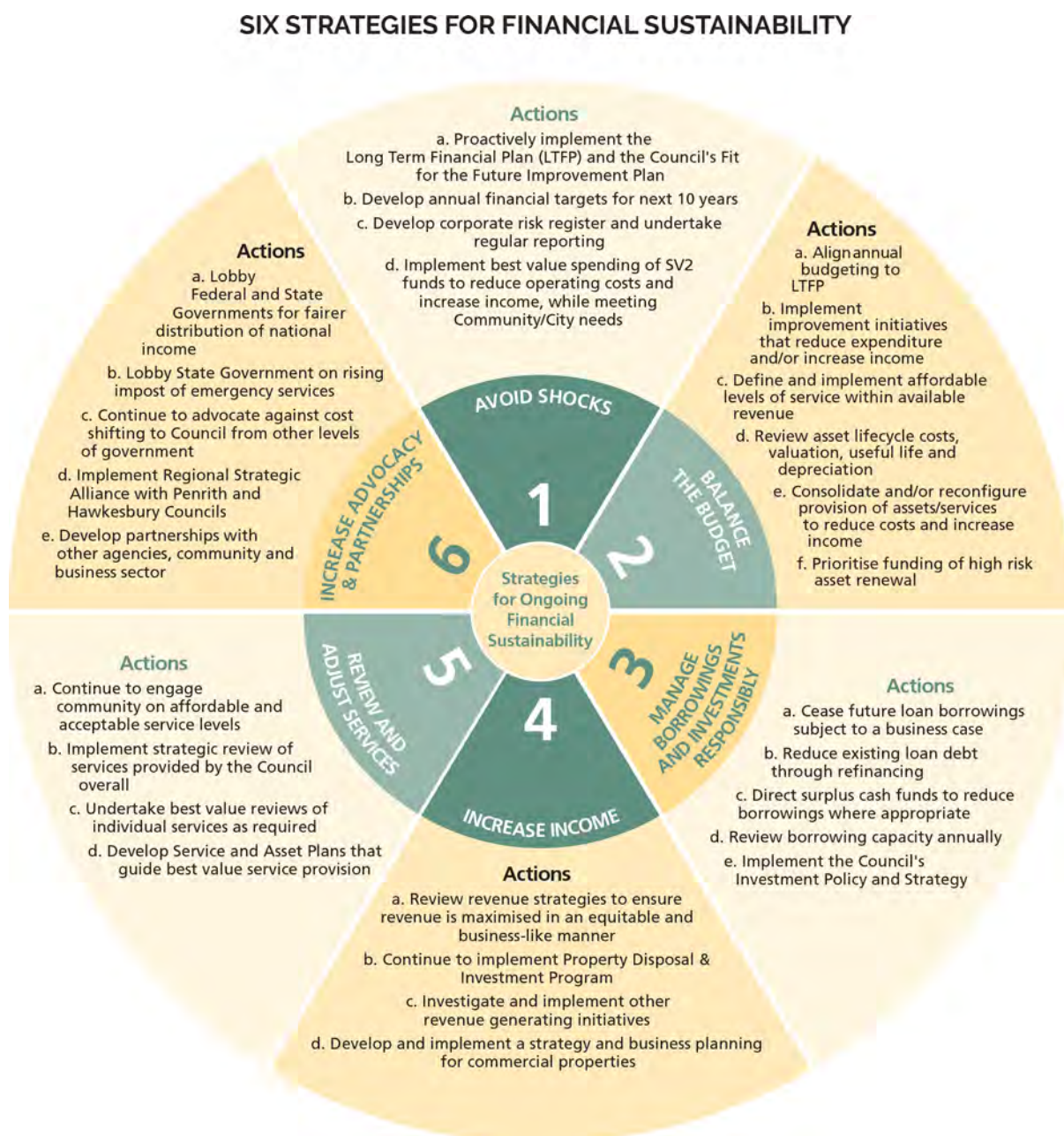


Figure 3-18: Six Strategies for Financial Sustainability

Further detail on how the Asset Strategies respond to some of these can be found below.

Financial sustainability strategy 1 – avoid shocks

This Strategy is split into two key areas:

Management of risk

Given that the Council must live within its available funding, any asset funding gap needs to be considered in the context of the affordable levels of asset service provision and the need to responsibly manage risk.

Asset management requires ongoing assessment of risks and prioritisation of available funding to address required action including possible closure of assets.

The Council has assessed the risks associated with its built and natural assets using the fundamentals of *International Standard ISO 31000: 2009 Risk Management* and *NAMS PLUS3* templates and methodologies. There is a process to ensure that all risks assessed as High or Very High are highlighted to Council's Governance and Risk Steering Group. This group has responsibility for assessing these risks and, where appropriate, highlighting them to the Council's independent external Audit Committee and to the Council.

The key risks facing all council asset based services are detailed in *Table 3.19*.

| Category | Risk | Response |
|--|---|---|
| Inadequate maintenance and renewal | <ul style="list-style-type: none"> Personal or property damage Poor amenity impacting on local community and economy Reduction in matching grant funding exacerbating impact Short or long term closure of assets | <ul style="list-style-type: none"> Undertake inspections Prioritise available funding to reduce risk, minimise lifecycle costs and maximise service levels Closure of assets that pose an unacceptable threat of property or personal damage |
| Natural disasters and other natural events | <ul style="list-style-type: none"> Available funding for Council services negatively impacted by increases in statutory contributions to state government agencies Cost to Council of response and recovery for natural disasters e.g. fires or storms impact on funding available for other Council services Council emergency management activities not adequately funded to reduce impact on council and community of natural disasters | <ul style="list-style-type: none"> Advocate to state government against cost shifting Include conservative forecast cost increases in LTFP. If statutory contributions increase greater than projections in LTFP, identify and communicate service reductions and/ or risks for other services to ensure continuation of Council's own emergency management activities Prioritise asset renewal or upgrade that mitigate impact of natural disasters Ensure natural disaster claims are made in a timely manner |

| Category | Risk | Response |
|--|---|---|
| Increasing standards and legislative changes | <ul style="list-style-type: none"> Available funding for Council services negatively impacted by increases in funding required to meet compliance requirements due to changing standards Short or long term closure of assets that do not meet legislative compliance requirements | <ul style="list-style-type: none"> Include forecast cost increases in LTFP to avoid future financial shocks Prioritise available funding to reduce risk, minimise lifecycle costs and maximise service levels Closure of assets that pose an unacceptable risk |
| Increase in asset base | <ul style="list-style-type: none"> Available funding for Council services negatively impacted by increases in asset base from Assets provided by other levels of Government e.g. Crown Lands, Civil assets from NSW Roads and Maritime Services, Emergency Management assets such as Rural Fire Service buildings and Asset Protection Zones | <ul style="list-style-type: none"> Advocate to state government against cost shifting Ensure assets provided by other agencies meet minimum asset standards to reduce lifecycle costs |

Table 3-19: Key risks and responses

Within available resources, the Council will prioritise and manage identified risks through appropriate funding allocations, inspections and condition assessments, ensuring risks are communicated to the audit committee and through asset closure or removal where required.

Managing the infrastructure backlog

“Infrastructure backlog” is the “unfunded high residual risk associated with assets essential to achieving Council’s CSP. High risk assets not essential to Councils CSP should be disposed, closed or reclassified and do not represent a financial sustainability risk.⁸” This ensures backlog is aligned with Council’s Asset Management Plans, the IPR manual and the IPART Assessment Methodology for FFtF released 5th June 2015.

Infrastructure backlog needs to be defined in asset management terms to ensure an auditable and evidence based approach to measurement and reporting and avoid theoretical and aspirational goals the community does not want to pay for.

Engagement with communities on appropriate and affordable service levels while managing risk is a foundational principle of IPR, encouraging councils to “engage the community in identifying the acceptable level of service for each asset type in Asset Management Plans.”

Asset Management Plans balanced to Long Term Financial Plans, annually reviewed in accordance with the IPR manual are the key instrument to enable organisations to be fit for the future.

Council is currently reviewing how it calculates this backlog to ensure consistency across all asset classes and that the definition supports asset managers and the organisation to make appropriate decisions.

⁸ Infrastructure Fit for the Future Report. JRA for Blue Mountains City Council V3 150629

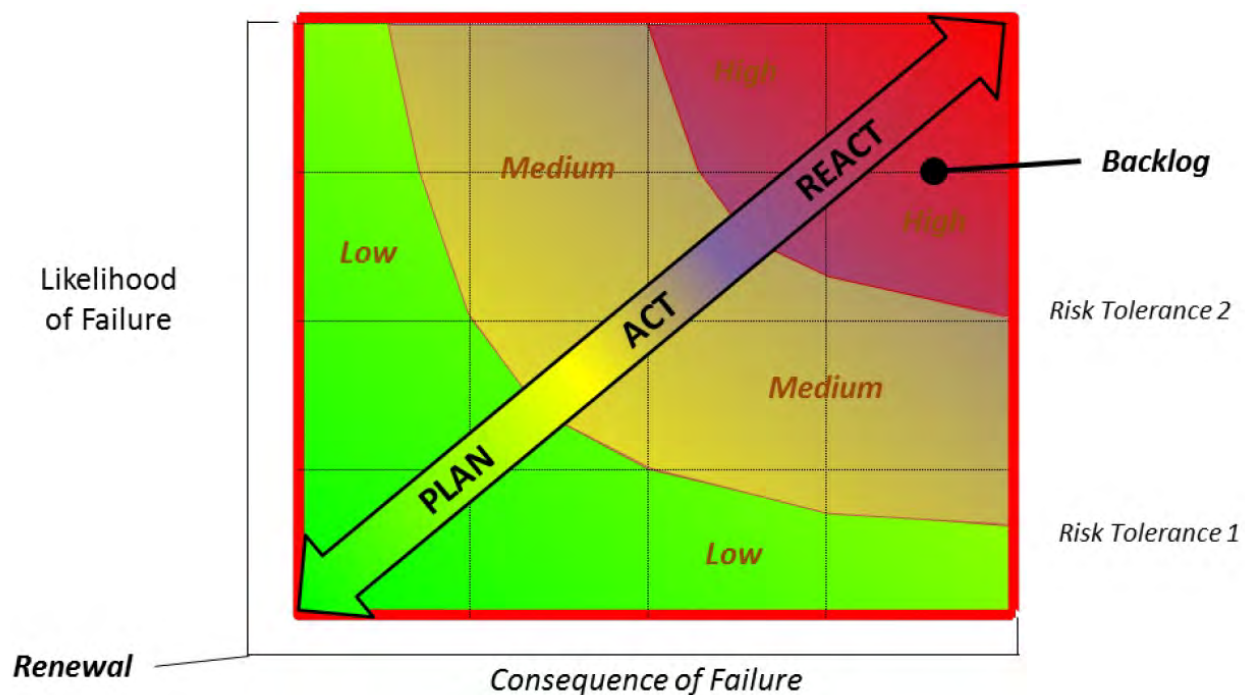


Figure 3-20: Infrastructure Backlog Definition

Financial sustainability strategy 4 - increase income

In order to ensure the sustainable provision of Councils assets, Council will develop a Policy on surplus land assets and commercial property portfolio that provides the framework for how profits from these activities are to be reinvested.

To ensure appropriate facilities are provided to meet the needs of the increasing number of visitors to the Blue Mountains, Council will develop a User Pays Strategy to ensure appropriate funding streams are available to fund investment in visitor infrastructure and facilities.

In addition, Council will actively target grant opportunities to maximise income available to fund new and upgrade of assets and some projects will be conditional on receiving funding support for construction.

Financial sustainability strategy 5 - review and adjust services

As part of this, Council has committed to a program of in depth service reviews assessing need and affordability to ensure that the services Council provides are appropriately targeted and provide best value for money.

A strategic service review will assess the scope and level of services delivered by Council, and their method and efficiency of delivery. The aim is to align the mix of services that Council provides to meet agreed community needs and support financial sustainability. The project will also identify whether Council is allocating resources to deliver services effectively and efficiently. This project commenced in September 2016 and will run for approximately 18 months.

Any resulting changes to services will be implemented over time, starting from 2018.

In addition to this, Council is currently reviewing or developing a number of key strategies that will drive investment in our biggest asset classes: transport, buildings and all recreation assets to ensure they continue to best meet assessed community need within available funding. This Asset Management Strategy will be updated to reflect any changes adopted from these strategies.

Asset Management Improvement Program

In order to ensure that Council is accountable and transparent in resource allocation and that the vision and objectives set out in the Community Strategic Plan are met, asset management improvements will be made so that Council:

- Meets as a minimum core asset maturity and advanced AM maturity as required;
- Makes decisions that align with *AMP*, *AMS* and *AMPs*;
- Achieves its financial ratios and targets relating to assets; and
- Manages risks effectively and communicates residual risk to Council.

The Council has committed in its overarching *AMP* that it will meet and apply the requirements for 'core asset management maturity', and to continuous improvement of its *AMS*.

Implementing the *AMIP* Actions involves significant resources, but has strategic and corporate significance to the Council. The Council needs to ensure that sustainable management of assets is a 'whole of council' responsibility, and that this is recognised at all levels within the Council.

To ensure it meets core asset maturity Council will implement the *AMIP* across all its asset classes. We have an *Asset Management Improvement Program Project Management Plan (AMIP PMP)* covering the period 2016-2018 and adopted by ELT in April 2016.

The *AMSG* will continue to track and monitor the implementation of the *AMIP* and will report on progress to Council's ELT.

The program objectives are:

1. Unqualified SS7 audits
2. Allocation of SV2 – best allocation of \$123M
3. Alignment between resources, assets, service levels and risk
4. Meet agreed services levels at lowest possible cost
5. Meet IPR requirements for Asset Management

The broad strategy for implementing the *AMIP* is to target best available information to meet initial externally imposed deadlines for Special Schedule 7 and the update to Integrated Planning. Concurrent with this and extending past these deadlines, the other phases and objectives will be delivered. Detailed project information such as schedule and responsibilities are documented within the *AMIP PMP*. The Program Leader Strategic Asset Management has responsibility for managing this program of works. Each Project within this program has a specifically nominated Project Manager. The timeline for major project phases and deliverables is shown in Table 3-21: Project Phases and Deliverables.

| Asset Management Improvement Program – Project Phases and Deliverables | | | | |
|---|---|--|---|-----------------------|
| Sub Project | Key Outcomes | | Deliverables | Timeline |
| Update to AM IPR documents | <p>Asset Management Plans that define activities, programmes and resources to provide defined level of service at affordable lowest Lifecycle Cost (LCC) (Institute of Public Works Engineering Australia, 2015)</p> <p>An adopted (NSW Office of Local Government, 2013) Asset Management Policy that states agreed organisational principles and approach to AM (Institute of Public Works Engineering Australia, 2015)</p> <p>Asset Management Strategy that</p> <ul style="list-style-type: none"> • specifies how the AM Policy will be delivered (Institute of Public Works Engineering Australia, 2015) • identifies assets that are critical to council's operations and outlines risk management strategies for these assets (NSW Office of Local Government, 2013); and • include specific actions required to improve the council's asset management capability and projected resource requirements and timeframes (NSW Office of Local Government, 2013) | | Updated AM IPR documents that meet key outcomes | 2016 – June 2018 |
| Implementing an auditable Special Schedule 7 (NSW Office of Local Government, 2016) | Current Replacement Cost (CRC)/ Written Down value | An Asset Register that accurately represents actual cost, useful life and planned intervention strategies with categories that align with Note 9 | <p>Asset Register that contains complete information for all infrastructure asset classes</p> <p>Documented alignment of Finance and Asset Management Asset Categories</p> <p>Updated Finance categories in Note 9 and SS7 to align with above. All known asset categories included in Finance Asset Register</p> | 2016 – September 2017 |

| Asset Management Improvement Program – Project Phases and Deliverables | | | | |
|--|--|--|---|-----------------------|
| Sub Project | Key Outcomes | | Deliverables | Timeline |
| | | | Documented affordable intervention strategies and how they are accounted. Updated asset valuation that aligns with above. | 2017 – June 2018 |
| | Condition as % of CRC | Understanding of and documentation to support assessment of condition for all assets | Documentation of status of current condition data and assumptions. Asset Register updated with condition data for all assets based on inspections or assumptions | 2016 – September 2017 |
| | Required Annual Maintenance (RAM)/ Bring to Satisfactory (BTS) | Understanding of, documentation to support and processes to calculate Required Annual Maintenance (RAM)/Bring To Satisfactory (BTS) | Agreed definition of RAM/BTS Process to calculate RAM/BTS | 2016 – September 2017 |
| | Actual maintenance | Understanding of, documentation to support and processes to calculate Actual Maintenance that aligns with the Local Government Code of Accounting Practice | Agreed definition of Actual Maintenance Process to calculate Actual Maintenance | 2016 – September 2017 |

| Asset Management Improvement Program – Project Phases and Deliverables | | | | |
|--|--|---|---|------------------|
| Sub Project | Key Outcomes | | Deliverables | Timeline |
| Replacement of Asset Management Information System | Implement a new Asset Management System and related business processes to ensure assets are managed throughout their entire lifecycle. | | <ul style="list-style-type: none">• Business Requirements Definition Document• Solution Design Document• Business Process Document• Detailed Design (Functional Specification) Document• UAT Detail Plan Document• Request for Proposal (Tender) Document• Vendor Proof of Concept System• Training Program• Test System setup• Production System setup• Data Migration and Quality Assurance Plan• Change Communication package• Go-Live of new system• Decommissioning of replaced systems• Post Implementation Review• Transition / handover documentation to manage Business As Usual procedures | 2016 – June 2018 |
| Making Asset Management “Business As Usual” | Maintaining Asset Data | Processes and assigned responsibilities for ensuring asset data is maintained | <p>Documented resourced processes for asset inspection development, implementation and reporting for compliance, risk, condition and function</p> <p>Documented resourced processes and guidelines for assessing risk, condition, compliance and function</p> <p>Documented resourced interim solution and processes for updating asset data</p> <p>Documented resourced processes for auditing asset data for accuracy and completeness</p> | 2016 – June 2018 |

| Asset Management Improvement Program – Project Phases and Deliverables | | | | |
|--|---|---|--|------------------|
| Sub Project | Key Outcomes | | Deliverables | Timeline |
| Getting Value from our Information | Cross organisational use of available information | Understanding and use of available asset information for strategy, tactics and operations as required and across the organisation | Documented review of asset reporting and asset spatial information requirements Reports developed, documented and training provided to meet reporting and GIS requirements or plan to incorporate into future functionality | 2016 – June 2018 |

Table 3-21: Project Phases and Deliverables



3.8 measuring progress

Council will measure its success in delivering this Asset Management Strategy through the following performance measures.

Levels of service

- Condition, function and capacity of assets; and
- Resident satisfaction and importance ratings for assets.

The Delivery Program shows four year targets for each of these performance measures

Financial sustainability

- Building and Infrastructure Renewal Ratio
- Infrastructure Backlog Ratio
- Asset Maintenance Ratio

Further information on financial sustainability ratios and Council's performance targets can be found in Section 2.7 of the LTFP.



3.9 appendix a

adopted asset management policy



Policy: Council

Asset Management Policy



Asset Management Policy

Policy Statement

Council commits to:

1. Implement a lifecycle approach to asset management;
2. Apply Council's adopted Best Value decision making framework;
3. Ensure risks associated with Council owned or managed assets are known and managed appropriately;
4. Manage assets with current and future users in mind;
5. Ensure compliance with regulatory requirements;
6. Continuously improve asset management planning, processes, practices and systems; and
7. Promote sustainable environmental, cultural, economic and social performance.

| | | | |
|-----------------|-------------------------------|--------------------------------|---|
| Policy Ref. No: | 272 | PCT Endorsement Date: | 19 October 2016 |
| TRIM Record No: | 16/223334 | ELT Meeting Date: | 23 November 2016 |
| Distribution: | Public | Public Exhibition Details: | 14 December 2016 – 25 January 2017 |
| Status: | Draft Stage Awaiting Adoption | Council Meeting Date: | 28 February 2017 |
| Scope: | Staff | Council Minute No: | 48 |
| Lifespan: | 4 Years | Responsible Directorate/Group: | City & Community Outcomes |
| Next review: | 31 January 2021 | Contact Position: | Program Leader Strategic Asset Management |

Version History

| Version | Adoption Date | Reason for Change |
|---------|------------------|---|
| 2017 | 28 February 2017 | Review prior to Resourcing Strategy update. |
| 2014 | 9 December 2014 | Resourcing Strategy update |
| 2013 | 25 June 2013 | Resourcing Strategy update |

Definitions

| Term | Definition |
|--------------------------------------|--|
| Asset | An item, thing or entity that has potential or actual value to an organisation |
| Asset Management | The systematic and coordinated activities and practices of an organisation to optimally and sustainably deliver on its objectives through cost-effective lifecycle management of assets |
| Asset Management Plan or AMP | Documented information that specifies the activities, resources or timescales required for an individual asset or grouping of assets, to achieve the organisation's asset management objectives. |
| Asset Management Strategy | A high-level action plan that gives effect to this Policy |
| Asset Management System | A set of interrelated or interacting elements of an organisation, including the Asset Management Policy, Objectives, Strategy and Plans and the processes to achieve these objectives |
| Asset Management Improvement Program | A structured program to improve asset management maturity documented within the Asset Management Strategy |
| Council | Blue Mountains City Council |
| IP&R | Integrated Planning and Reporting |
| Life Cycle Cost | The total cost of an asset throughout its life including planning, design, construction, acquisition, operation, maintenance, rehabilitation and disposal costs |

Related Documents

This document should be read in conjunction with Council's other Integrated Planning and Reporting documents as follows:

- Community Strategic Plan
- Resourcing Strategy
- Delivery Program
- Operational Plan

Related Legislation:

Local Government Act 1993 (NSW)

Specific legislation and standards as relate to each asset class are listed in the relevant Asset Management Plan.

This Policy follows the requirements of NSW Integrated Planning and Reporting Guidelines, the International Infrastructure Management Manual 2015 and ISO55000, ISO55001 and ISO55002.

Policy details and information

Contents

| | |
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| 1. Policy Context | 2 |
| 2. Policy Objectives | 2 |
| 3. Responsibilities | 3 |
| 4. Evaluation | 4 |

Policy Context

The Resourcing Strategy consists of three inter-related elements:

- Long-Term Financial Planning
- Asset Management Planning
- Workforce Planning

Council's Asset Management Planning is supported by three key documents:

- an Asset Management Policy (this Policy);
- an Asset Management Strategy
- Asset Management Plans – for all assets under Council's control, which identify asset service standards and contain long-term (at least 10 years) projections of asset maintenance, rehabilitation and replacement costs. These costs should then be reflected in the Long-Term Financial Plan

This Policy sets the broad framework for undertaking asset management in a structured and coordinated way. It outlines why and how asset management will be undertaken. It provides a clear direction for asset management and defines key principles that underpin asset management for the Council. The Policy sets the framework for the preparation of the council's Asset Management Strategy and Asset Management Plans, while the Strategy supports and implements the Policy.

This Policy applies to all community asset classes owned and managed by Council.

Policy Objectives

The Council is committed to implementing an Asset Management System that ensures assets are planned, created, operated, maintained, renewed and disposed of in accordance with Council's priorities for service delivery and risk management. In particular, Council will:

A. Implement a lifecycle approach to asset management

- Consider full lifecycle costs of managing our assets, from planning an asset through to asset disposal;
- Understand the long-term costs of service provision;
- Develop clear financial policies for asset operations, maintenance, acquisition, renewal, upgrade and disposal; and
- Review financial policies to ensure that the treatment of assets aligns with affordable best value service delivery outcomes including basing valuations on a lifecycle approach.

B. Apply Council's adopted best value decision making framework

- Apply adopted Best Value decision-making criteria; and

- Apply documented Best Value governance processes to asset management decision-making.

C. Ensure that risks associated with Council owned or managed assets are known and managed appropriately

- Consider the risks and consequences of actions and inaction when prioritising asset works or allocating funding;
- Prioritise renewal and maintenance strategies that reduce lifecycle costs and minimise risks while maintaining asset function; and
- Minimise shocks by proactively implementing the Long-Term Financial Plan.

D. Manage assets with current and future users in mind

- Assess demand drivers to plan for future asset requirements;
- Align asset service provision to adopted Council policies, strategies and planning documents;
- Review and update all Asset Management Plans annually to maintain currency;
- Ensure projects support the financial sustainability of Council in the long term; and
- Focus on innovation.

E. Ensure compliance with regulatory requirements

- Demonstrate transparent and responsible asset management processes that align with best practice, statutory requirements and relevant Standards.

F. Continuously improve asset management planning, processes, practices and systems

- Continue to develop an integrated Asset Management System that operates across Council and aligns with the Long-Term Financial Plan;
- Ensure the Asset Management System supports achievement of Fit for the Future Benchmarks for Sustainability, Infrastructure and Service Management, and Efficiency;
- Further develop in-house asset management capability and competency to ensure employees are aware, competent and empowered; and
- Use transparent and responsible asset management practices that align with best practice principles.

G. Promote sustainable environmental, cultural, economic and social performance

- Align asset management planning to adopted strategies of the Council; and
- Protect significant values, reduce threatening process and rehabilitate assets in line with adopted strategies of Council.

Responsibilities

| Role | Responsibility |
|-----------------|---|
| Council | <ul style="list-style-type: none"> • Policy, priorities and allocation of resources. |
| General Manager | <ul style="list-style-type: none"> • Maintains overall responsibility for the development and implementation of this Policy and associated systems. • Reports on the status and effectiveness of asset management to Council. |



Evaluation

We will measure our performance by:

- Assessing whether Council meets Fit for the Future benchmarks for asset management:
 - Building and Infrastructure Renewal Ratio
 - Infrastructure Backlog Ratio
 - Asset Maintenance Ratio
- Assessing whether agreed service levels for asset related Services as documented in the Asset Management Strategy and Plans and agreed with the Community are met

3.10 appendix b

asset works program to 2017-2026

| Service / Asset Works Type | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | 2025-2026 | Total |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Aquatic & Leisure Centres | 280,000 | | 1,190,000 | 1,300,000 | | | | | 19,000 | 2,789,000 |
| Renewal | 280,000 | | | | | | | | | 280,000 |
| Upgrade | | | 1,190,000 | 1,300,000 | | | | | 19,000 | 2,509,000 |
| Burials & Ashes Placement | 55,000 | 57,000 | 58,000 | 60,000 | 62,000 | 64,000 | 66,000 | 68,000 | 70,000 | 560,000 |
| Renewal | 55,000 | 57,000 | 58,000 | 60,000 | 62,000 | 64,000 | 66,000 | 68,000 | 70,000 | 560,000 |
| City Presentation | 1,310,784 | 750,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 700,000 | 700,000 | 5,960,784 |
| New | 70,000 | | | | | | | | | 70,000 |
| New Projects - Major | 558,784 | | | | | | | | | 558,784 |
| Renewal | 147,000 | 250,000 | | | | | | | | 397,000 |
| Upgrade | 535,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 | 700,000 | 700,000 | 4,935,000 |
| Community Development | 694,760 | 338,000 | 225,000 | 726,512 | 212,551 | 894,309 | 257,739 | 126,570 | 2,011,366 | 5,486,807 |
| Renewal | 485,000 | 263,000 | 150,000 | 170,000 | 212,551 | | | | 1,900,000 | 3,180,551 |
| Upgrade | 209,760 | 75,000 | 75,000 | 556,512 | | 894,309 | 257,739 | 126,570 | 111,366 | 2,306,256 |
| Cultural Development | 110,000 | | | 243,000 | | | | | | 353,000 |
| Renewal | 110,000 | | | 243,000 | | | | | | 353,000 |
| Economic Development & Tourism | 4,019,757 | 877,746 | | | | | | | | 4,897,503 |
| New Projects - Major | 4,019,757 | 877,746 | | | | | | | | 4,897,503 |
| Emergency Management | 184,000 | 168,540 | 178,652 | 189,372 | 200,734 | 212,778 | 225,545 | 239,077 | 246,250 | 1,844,947 |
| Renewal | 184,000 | 168,540 | 178,652 | 189,372 | 200,734 | 212,778 | 225,545 | 239,077 | 246,250 | 1,844,947 |
| Operational Internal Services | 85,000 | 560,000 | 25,000 | 200,000 | 50,000 | | | | | 920,000 |
| Renewal | 85,000 | 560,000 | 25,000 | 200,000 | 50,000 | | | | | 920,000 |
| Sport & Recreation – Natural Area Visitor Facilities | 842,951 | 635,535 | 846,527 | 1,008,319 | 1,172,407 | 677,597 | 1,002,530 | 1,047,539 | 1,072,039 | 8,305,443 |
| New Projects - Major | 686,322 | 286,050 | 45,003 | | | | | | | 1,017,375 |
| Renewal | 156,629 | 349,485 | 307,294 | 372,496 | 743,962 | 406,558 | 601,518 | 628,523 | 643,224 | 4,209,688 |
| Upgrade | | | 494,230 | 635,823 | 428,445 | 271,039 | 401,012 | 419,015 | 428,816 | 3,078,380 |
| Sport & Recreation - Recreation Facilities | 1,605,036 | 2,044,332 | 1,635,470 | 1,714,125 | 711,977 | 634,586 | 905,532 | 1,254,717 | 1,297,774 | 11,803,548 |
| New Projects - Major | 946,036 | 491,212 | 234,444 | 195,911 | 244,975 | 203,699 | | | 40,000 | 2,356,277 |
| New | 95,000 | | | | | | | | | 95,000 |
| Renewal | 134,000 | 953,120 | 462,756 | 185,303 | 192,002 | 330,887 | 357,263 | 448,833 | 353,491 | 3,417,654 |
| Upgrade | 430,000 | 600,000 | 938,270 | 1,332,911 | 275,000 | 100,000 | 548,269 | 805,884 | 904,283 | 5,934,617 |
| Transport & Public Access | 3,627,824 | 4,286,351 | 3,838,270 | 4,393,244 | 4,544,097 | 4,366,467 | 5,078,951 | 4,370,112 | 4,455,034 | 38,960,351 |
| New | | 225,908 | 131,127 | 135,061 | 139,113 | 143,286 | 147,585 | 152,012 | 156,573 | 1,230,666 |
| Renewal | 3,627,824 | 3,950,443 | 3,587,143 | 4,258,183 | 4,404,984 | 4,102,981 | 4,719,884 | 4,000,273 | 4,084,100 | 36,735,816 |
| Upgrade | | 110,000 | 120,000 | - | - | 120,200 | 211,482 | 217,827 | 214,361 | 993,870 |
| Transport & Public Access - Active Transport | 544,731 | 806,000 | 366,680 | 888,545 | 400,202 | 892,208 | 424,574 | 446,466 | 459,860 | 5,229,267 |

| Service / Asset Works Type | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | 2025-2026 | Total |
|----------------------------------|-------------------|-------------------|------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| New | 367,096 | 122,365 | 106,090 | 109,273 | 112,551 | 115,927 | 119,405 | 122,987 | 126,677 | 1,302,372 |
| Renewal | | 453,000 | 260,590 | 279,273 | 287,651 | 296,280 | 305,169 | 323,479 | 333,183 | 2,538,625 |
| Upgrade | 177,635 | 230,635 | - | 500,000 | - | 480,000 | - | - | | 1,388,270 |
| Waste Resource Management | 2,000,000 | | | | | | | | | 2,000,000 |
| New Projects - Major | 2,000,000 | | | | | | | | | 2,000,000 |
| Water Resource Management | 348,000 | 804,500 | 697,366 | 839,135 | 568,909 | 829,628 | 799,161 | 818,611 | 1,020,634 | 6,725,944 |
| New | 18,000 | | | | | | | | | 18,000 |
| Renewal | 60,000 | 670,000 | 154,500 | | 205,000 | 210,125 | 215,378 | 220,763 | 226,282 | 1,962,047 |
| Upgrade | 270,000 | 134,500 | 542,866 | 839,135 | 363,909 | 619,503 | 583,783 | 597,848 | 794,353 | 4,745,897 |
| Grand Total | 15,707,843 | 11,328,004 | 9,560,965 | 12,062,251 | 8,422,877 | 9,071,573 | 9,260,031 | 9,071,092 | 11,351,957 | 95,836,593 |



together

workforce management strategy

Another truckload
of waste



4.1 overview

The Department of Local Government advocates workforce planning to help ensure that the community's strategic goals are met. The development of an effective workforce management strategy will enable Council to focus on the medium and long term and also provide a framework for dealing with immediate challenges in a consistent way.

An effective workforce strategy aims to provide Council with the people best able to inform its strategic direction, develop innovative approaches to complex issues and deliver appropriate services – effectively and efficiently.

The benefits of ensuring a diverse workforce include better local representation, improved communication and a better understanding of the issues affecting local communities. It also means that there is an optimal pool of workers in place to address the issues facing councils. These issues include skills shortages, ageing workforce and business succession planning, as well as the challenges involved in invigorating local communities and economies.

When developing Council's *Workforce Management Strategy 2017-2027*, strategic issues to consider included the analysis of council's workforce requirements based on the commitments in the *Community Strategic Plan* and *Delivery Program*. This involved developing an appropriate workforce structure to meet those objectives, encapsulating workplace equity and diversity as a tool to benefit Council, strengthening Council's workplace governance, and supporting and developing Council staff.

The *Workforce Management Strategy 2017-2027* is consistent with, and aligned to, the Department of Local Government's integrated planning and reporting requirements and is a key component of the Council's *Resource Strategy*. It is strongly aligned and integrated with our *Asset Management Strategy* and *Long Term Financial Plan*.

Overall, the *Resource Strategy* determines Council's capacity to manage its finances, its assets and its workforce in delivering the programs and priorities in our *Community Strategic Plan 2035*.

4.2 scope and purpose

Blue Mountains City Council's *Workforce Management Strategy 2017-2027* takes a long-term view determining the workforce needs over a 10-year horizon. This is to ensure Council's workforce is structured to respond to and has the capacity to deliver the programs and priorities in our *Community Strategic Plan 2035*.

The purpose of the WMS strategy is to provide the platform to identify, consider and respond to the significant issues and risks facing the organisation now and into the future. In particular, it takes into account the increasing financial pressures facing the Council by strategically positioning our workforce to respond quickly to changing needs of the organisation. Ultimately, implementation of the strategy will deliver a highly safe, skilled and engaged workforce that provides "value for money" services to the Blue Mountains community.



4.3 workforce challenges and opportunities

Technology

Tomorrow's workplace will look very different to that of the past – the desk-per-employee office model is fast becoming a thing of the past.

While the need for human recognition and interaction will remain, the tools used will continue to change dramatically, thanks to technological advances. As they continue to emerge at an increasingly rapid pace, it will be these advances that will most directly affect the workplace.

Around the world, the dominant driver of this phenomenon is the expanding connectivity capability for individuals, communities and business. More and more, this ease of connectivity is allowing people to deliver and access services, obtain information and perform transactions – anytime, anywhere. At the same time, outmoded traditional sources are being undermined and discarded. In Australia, the roll-out of the NBN will strengthen this trend.

An important consideration is people's ability to adapt. For organisations, it is imperative that this ability is harnessed effectively.

Ageing population

It is no secret that Australia, like many other countries, has an ageing population. The City of the Blue Mountains is no exception. In fact, the Blue Mountains has a reasonably static population with a higher percentage of older residents and is also ageing faster when compared to the average for Western Sydney (WSROC), NSW and Australia. The Blue Mountains LGA has the highest median age in metropolitan Sydney (43.5). The area is also ranked third in metropolitan Sydney for percentage of the population older than 65 years (18.1%).

At the same time, there has been a decline in the number of residents under 50 years of age – in particular, in the 18 to 24-years-old group, the latest population forecasts for the Blue Mountains show a continuation of this trend.

Despite the inherent challenges of an ageing population, this trend can provide an opportunity for the City – by better utilising the wealth of skills, knowledge and wisdom of the older generation, our community can reap added benefits.

Superannuation changes

In an effort to increase benefits to Australians on retirement, the Australian Government has introduced the *Superannuation Guarantee (Administration) Amendment Act 2012* (SGC), which has increased employer obligations in regards to superannuation for all employees.

In the 2014-15 Federal Budget the Treasurer announced the government's intention to change the schedule for increasing the super guarantee (SG) rate to 12%.

The SG rate increased from 9.25% to 9.5% from 1 July 2014 as currently legislated. The Government amendments (not legislated) mean that the rate will remain at 9.5% until 30 June 2021 and then increase by 0.5 percentage points each year until it reaches 12%.

| | |
|--------------------|---------------------|
| • July 2014 – 9.5% | • July 2021 – 10.0% |
| • July 2015 – 9.5% | • July 2022 – 10.5% |
| • July 2016 – 9.5% | • July 2023 – 11.0% |
| • July 2017 – 9.5% | • July 2024 – 11.5% |
| • July 2018 – 9.5% | • July 2025 – 12.0% |
| • July 2019 – 9.5% | • July 2026 – 12.0% |
| • July 2020 – 9.5% | • July 2027 – 12.0% |

The superannuation cost to council in 2015-2016 was approximately \$4.43M. Whilst these increases will be phased in over time a 12% SGC will increase the organisation's overall superannuation bill by approximately \$1.0M annually – a 30% increase.

Salary increases

A new Local Government (State) Award is currently under negotiation salary increases will not be finalised until June 2017. Given the current rate of Consumer Price Index (CPI) and Wage Price Index (WPI) it is anticipated that future increases could range anywhere between 2% to 3% per increase. Historically these increases usually occur annually. As an estimate a wage rise of 2.8% would increase council's wage bill by \$1.06M.

Safety laws

The process to harmonise safety laws and regulations across Australia took effect on January 2012. In NSW, this consisted of the *Work Health & Safety (WHS) Act 2011*, and the Work Health and Safety Regulations 2011, along with the Codes of Practice. The purpose of harmonising the work health and safety laws throughout Australia was to:

- Provide a consistent level of safety for all Australian workers while maintaining existing standards
- Ensure all involved in work have a duty of care by moving away from the employment relationship as the basis of obligations
- Enhance protection against discrimination, coercion, inducement and misrepresentation
- Broaden rights for representation, including union right of entry to workplaces
- Make provision for graduated enforcement, with alternative options for WHS improvement
- Significantly increase the maximum fines and introduce categories of offence

For the Council, it was determined an assessment of the safety management systems and processes was prudent to determine compliance with the new laws. An independent third party was engaged to undertake a comprehensive gap analysis of the safety management systems and processes within the organisation. This work culminated in the development of an improvement plan, which is being

implemented over a three-year timeframe. The cost of implementing the improvement plan is in the order of \$1.0M, however, it will guarantee compliance with the new WHS laws and ensure a safer workplace.

Workers Compensation

In June 2012, the NSW Government introduced changes to the Workers Compensation Scheme in NSW. While the reforms improve the return to work process, the key driver of the reform is to return the scheme to financial sustainability without large increases in employer premiums.

It is the responsibility of individual organisations to effectively manage their Workers Compensation costs and Injury Management processes, the scheme's ongoing viability needs due consideration in the context of workforce planning, as any future increases are likely to be substantial and have a major cost impact.

In anticipation of future premium increases, Blue Mountains City Council has undertaken a major review of its Workers Compensation and Injury Management processes. This exercise led to the organisation being admitted into WorkCover NSW's Retro-Paid Loss Scheme in 2011. While participation in this scheme requires a more proactive management approach, it has seen a significant reduction in workers compensation premiums in the order of 60% and is delivering savings to the organisation in excess of \$1.0M annually.

Work organisation

While the development of an effective resourcing strategy is critical, the way in which resources are organised and deployed is vital to ensuring the effective and efficient delivery of any strategy. As such, a comprehensive review of the organisational structure was undertaken in 2011, resulting in a change in the delivery model designed specifically to:

- Better support the delivery of the organisation's delivery plans in response to the Community Strategic Plan
- Improve and strengthen service delivery and responsiveness within our financial capacity
- Clarify accountability for strategy, outcome setting and operational activities
- Reinforce continuous improvement and innovation and minimise risk across the organisation.

As part of the development of the current four-year delivery plan, a further review was undertaken in 2013 to ensure alignment is maximised between activity and strategy. This process has involved consultation with the stakeholders and the workforce.

An additional review occurred in 2015, to further align work practices to achieve greater efficiencies and effectiveness.

4.4 council's long term financial strategy

Underpinning, and driving, the *Workforce Management Strategy* is Council's adoption of a responsible financial strategy to ensure Council is viable over the long term (*Long Term Financial Strategy*). The key to this strategy is the development of a focused six-pronged approach to achieve financial sustainability for the organisation. This approach has a series of actions under each of the following areas:

1. Avoid shocks
2. Balance the budget
3. Manage borrowings & investments responsibly
4. Increase income
5. Review & adjust services
6. Increase advocacy & partnerships



In response to the outcomes of these strategies we are continuing development of a highly skilled, flexible and engaged workforce to respond appropriately to either improving, decreasing or maintaining service levels.



4.5 fit for future

In September 2014 the NSW Government released its Fit for the Future (FFTF) program following a three-year review of Local Government and in May 2016 the NSW Government subsequently announced the amalgamation of a number of councils across NSW and the need for all Councils to continue to demonstrate their ability to remain Fit for the Future.

In 2016 Blue Mountains City Council was recognised as “Fit for the Future”. In response to Fit for the Future and the Six Strategies for Financial Sustainability, Council has identified the following Key Priorities:

- Priority 1:** Improve our approach to asset management and delivering Council’s commitments to meet:
 - Fit for the Future targets
 - Value for money services to the community
- Priority 2:** Deliver Council’s Fit for the Future targets – maintaining the Best Value Decision Making Frame to maximise the outcomes for the community from Special Rate Variation income
- Priority 3:** Review services at a strategic level to inform future decision making and priorities
- Priority 4:** Increase focus and priority on Business Improvement and Innovation to improve effectiveness and efficiency
- Priority 5:** Be proactive in communicating and engaging with the community on the business of the Council
- Priority 6:** Develop a strategic approach to tourism and the visitor economy that addresses the increased visitation, local community and funding options.

Underpinning and driving the Workforce Management Strategy is ensuring we have a skilled and capable workforce that supports the organisations priorities to ensure we remain fit for the future. Essential to this is the Business Improvement Program which will deliver organisation efficiencies through the development and implementation of organisation business improvement model of which a key component is the development of our workforce business improvement capability.

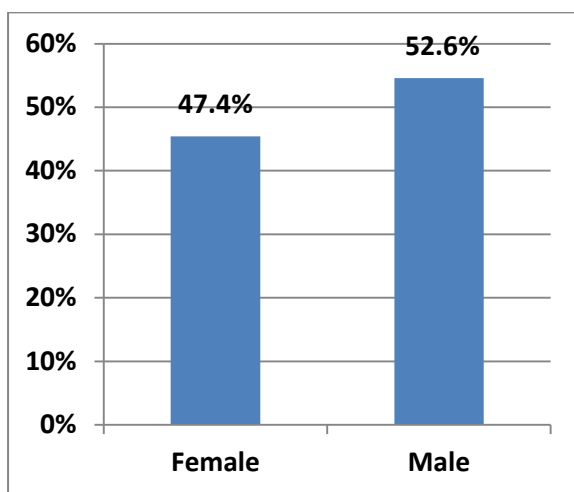
4.6 workforce profile

At a glance

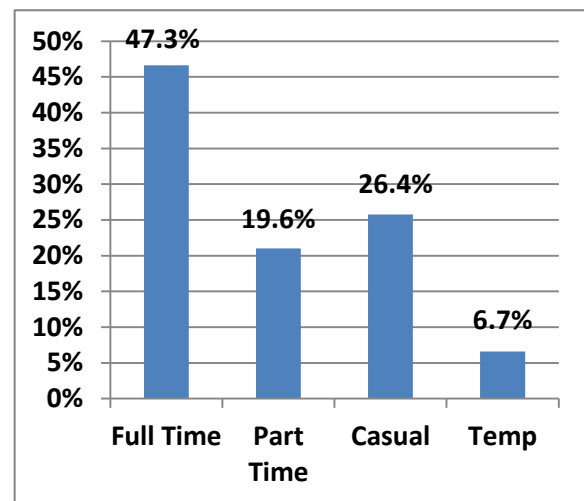
Blue Mountains City Council has a highly flexible workforce made up of the following:

- 47.3% permanent full-time employees
- 19.6% permanent part-time employees
- 26.4% casual employees
- 6.7% temporary employees

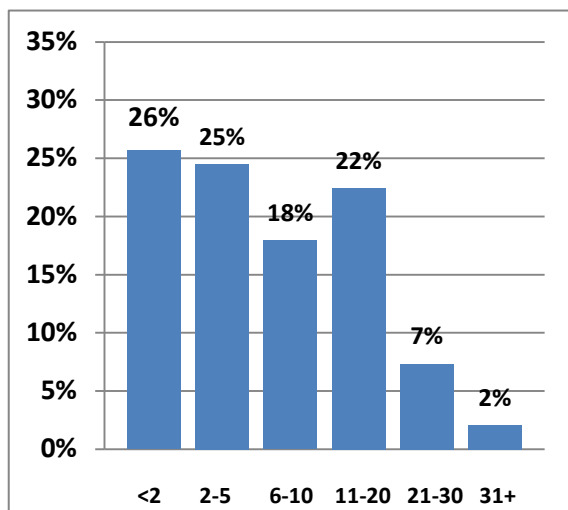
Gender



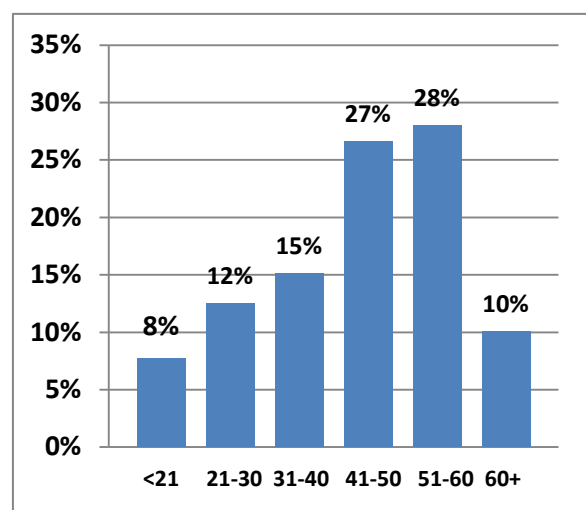
Employment Type



Service in Years



Age



Employment costs

A significant component of the Council delivering high quality services to the community are the employment costs associated with the establishment and development of a highly skilled and

responsive workforce. Some 45% of the current operational expenditure (excluding capital expenditure) costs are employment costs, which have remained reasonably static over time due to the nature of Council's operations. That said, the actual cost of the workforce continues to increase, due largely to statutory requirements, at a far greater rate than the organisation's revenue capability.

While a solution would be to simply reduce the size of the workforce, this is highly problematic, as there is a direct correlation between employment costs and service levels. Essentially, any reduction in staff numbers will lead to a reduction in the level of service.

The drivers of increased employment costs are predominately external factors outside the control of Council such as wage increases, superannuation increases, workers compensation costs, sick leave and leave entitlements. These increases in employment costs have been factored into *Council's Long Term Financial Plan*.

Pragmatically, this can be best evidenced with Council's requirement, over recent years, to deliver activities previously provided by other tiers of government, without increasing the overall size of the workforce.

The key premise of Council's *Workforce Management Strategy* is to maximise workforce productivity by **ensuring a highly safe, skilled and engaged workforce**. Such a holistic approach has a significant flow-on effect and leads to a reduction in turnover, workers compensation costs, leave liabilities and absenteeism – all of which impacts positively productivity, costs and levels of service and will produce real savings of significant order.

Age

Good practice suggests the optimum demographic of any workforce should be reflective of the community in which it serves. As a Local Government organisation and the largest employer in the Blue Mountains, the Council takes such responsibility seriously. As the most significant demographic characteristic is the ageing of the population profile and given that 89.5% of the workforce lives locally, this provides unique challenges and risks for the organisation.

Currently 52% of the Blue Mountains City Council workforce are over 45 years of age and of this component 23% are over 55 years of age. This is a decrease of 8% of the over 45 years component and a decrease of 7% of the over 55 years of age component, since last reporting.

Currently the component under age 35 are 25% and under 25 years of age 13%. This is an increase of 11% and 10 % for each of these age categories. While this is a positive outcome as a result of Workforce Strategy actions, more work is to be done in this area.

Length of service

Length of service is closely aligned to age and stability of the workforce. A stable workforce supports the organisation's ability to maintain continuity of existing relationships and understand the needs of the community more effectively. On the other hand a static workforce can become a weakness if they become less innovative, creative and flexible in responding to the needs of the community and

environment. The development of strategies that allow the workforce to maintain creativity and respond in innovative and flexible ways are a vital component of the workforce strategy.

Our average length of service over all employees is 8.23 years, with 64.5% of all staff with less than 10 years' service. A significant number of employees, 35.1% have over 10 years of service; made up of 23.5% with over 10 years but less than 20 years and 11.6% with 20 years and over of service.

The average length of service tenure for all females is 7.2 years with 69.5% of our females having less than 10 years' service, 22.2% between 10 to 20 years and 8.3% with 20 years plus. This represents another 10% increase from the previous reporting period in the less than 10 year category and an 8% decline in the 10 to 20 year category.

The average length of service tenure for males is 9.3 years with 59.1% of our males having less than 10 years' service, 25.7% between 10 to 20 years and 15.2% with 20 years plus. In comparison to last 3 years where it had been stable been stable at 50% with the organisation less than 10 years, 35% between 10 and 20 and 15% over 20 years. An increase of 9.1% for males with 10 years less service, an increase of nearly 10% of males with between 10-20 years of service and a small decline of 0.2% of males with over 20 years of service.

There is some correlation in the results of length of service and the actions undertaken in response to the ageing workforce which is being reflected in the changes in distribution of employees length of service.

Diversity

Diversity refers to the workforce participation of different groups within our society. Attracting these cohorts into employment is therefore critical in achieving an organisation that is truly reflective of the community it represents and serves. Presently, 52.6% of the workforce is female which has increased and less than 1.0% identify as Aboriginal.

At Blue Mountains City Council, the development of a wide-ranging *Workforce Participation Strategy* in 2010 – which positions Council as leader in such programs – is a strong demonstration of Council's civic leadership responsibilities. The Blue Mountains City Council *Workforce Participation Strategy* has a vision "*to be recognised as a leader in workforce participation programs*" and has four core components:

1. Aboriginal Employment
2. Women in the Workforce
3. People with a Disability
4. Economically Disadvantaged

A phased approach has been adopted to ensure effective delivery of the overall strategy.

Employee retention

Retention of the workforce is not only a key measure of the overall health of the workforce, but is also a key driver in effectively managing employment costs. In recent years, retention rates have improved significantly and are well ahead of the industry average, suggesting the impact of the overall *Workforce Management Strategy* is starting to pay dividends.

Historically, Council's retention rate has fluctuated between 85% and 97.1%. However, over the last 2 years we have seen a decrease in retention currently 90.9%. Due to our ageing workforce we have seen a rise in retirements of our permanent workforce over the last 2 years from 0.5% in 2014 to 1% in both 2015 & 2016. Conservative estimates place the cost associated with an employee leaving an organisation at the equivalent to the annual cost of the individuals' salary. In a workforce of 500 permanent employees a 1% change represents five employees. At an average salary of \$50,000 – an improvement of 1% delivers a saving of \$250,000. In the past five years there has been an improvement in retention of some 10%, which represents a saving in the order of \$2.5M over 10 years to the community.

Skills & competencies

Ensuring up-to-date skills and competencies is essential to the ongoing effectiveness and performance of the organisation in serving the Blue Mountains community. A skills audit in 2007 revealed, that despite a worldwide shortage in experienced Town Planners, Engineers and Building Surveyors, there was significant depth in these technical areas within BMCC.

In 2007, Blue Mountains City Council developed and implemented a critical skills shortage strategy to fill identified skill gaps in the workforce. This strategy has been successful in filling the gap in the technical areas mentioned above.

However, significant gaps in the areas of project management, business planning, management and leadership, were identified. This skills gap was also recognised by the Office of Local Government, in the Fit for Future report, as a Gap across all local government authorities.

The revised workforce strategy identifies the need to undertake another skills analysis due to the changing landscape. The strategy is also now focusing on the non-technical areas and several initiatives are designed to strengthen these areas.

The design and implementation of the Learning Management System (LEARN) is allowing the organisation to take a more sophisticated and planned approach to resource planning and employee development.

Behaviours & culture

Contemporary organisational knowledge now acknowledges the importance of values and behaviour in building a strong high performing organisational culture.

Hewitt is an Australian organisation, which has been studying the attributes of high performing organisations for over two decades. They believe: *"a high level of trust is necessary to ensure employees commit and engage with the organisation's purpose, values, and vision"*. The compelling outcome of the ANZ Hewitt research is that high performing organisations continually have a 30% better bottom line results when compared to average organisations. When coupled with the tightening labour markets and the increasing cost of labour, organisations need to focus on the existing workforce and design and implement strategies that deliver a highly skilled and engaged workforce to ensure the productivity of the workforce is maximised.

At Blue Mountains City Council this is the central tenet of our *Workforce Management Strategy*.

4.7 strategies and actions

The Office of Local Government (OLG) has identified six key strategic workforce issues that will require consideration in any workforce strategy to ensure a resilient and sustainable workforce for the future. These six areas are:

1. **Investment in development** - the development and up-skilling of existing employees.
2. **Labour retention** – exploring wider issues affecting individual employees.
3. **Business succession planning** – current and future organisational capability and needs.
4. **Non-traditional labour pools** – access to such different pools of labour including women, Indigenous people and people with a disability.
5. **Promoting local government as an employer of choice** – strengthening community understanding of the important role of local government and various professions and positions.
6. **Resource sharing** – collaborative partnerships between councils.

These components are integral to the Blue Mountains City Council *Workforce Management Strategy*. The vision of the Blue Mountains City Council Workforce Management Strategy is to maximise workforce productivity by ensuring a **highly safe, skilled and engaged workforce**. Such a holistic approach has a significant flow-on effect and will lead to an increase in employee satisfaction and a reduction in turnover, workers compensation costs, leave liabilities and absenteeism – all of which impact positively on both costs and levels of service.

The Blue Mountains City Council's *Workforce Management Strategy* has five key strategic directions. These strategic directions are known as areas of priority focus and form the basis of the Council's People & Safety Service plan:

Priority Focus 1 – Safe & Healthy

Our people work to the highest safety standards and their wellbeing is paramount.

This priority focus is more than simply meeting our obligations; it is about the development of safety and wellbeing programs to assist the workforce in leading a healthy and productive life.

Priority Focus 2 – Skilled & Responsive

Our people are highly skilled and have the ability to adapt to the ever changing environment.

This priority focus is about ensuring the workforce has the skills and competencies not only to perform their roles today but also to plan and prepare them for the future.

Priority Focus 3 – Committed & Engaged

Our people are highly engaged and committed to the services we deliver and the community we serve.

This priority focus recognises that people will be at their best when they understand what is expected of them and where the organisation is heading. It also acknowledges the critical role leadership plays in delivering success and the need for open and transparent communication mechanisms.

Priority Focus 4 – Systems & Processes

Our people and safety processes are effective and efficient and we meet our compliance obligations.

This priority focus recognises the need to have robust systems and processes to support and enable the workforce to operate at their optimum. It is also important to have clear, documented and transparent internal policies and procedures, which are easily accessible, regularly reviewed and consistently followed.

Priority Focus 5 – Plan & Review

Our approach is regularly reviewed and monitored to ensure ongoing success and business integration.

This priority focus is about ensuring the organisation takes a structured, planned and integrated approach that is aligned to the organisation's vision, objectives and long-term plans and strategies. It also recognises the need for ongoing monitoring to track progress to ensure success.

Within each of these Priority Focus areas a series of key actions has been developed (Table 4-2). These are designed to achieve the overall objective of **ensuring a highly safe, skilled and engaged workforce** that delivers “value for money” outcomes for the community.

| BLUE MOUNTAINS CITY COUNCIL WORKFORCE MANAGEMENT STRATEGY 2017-2027 | | |
|--|---|--|
| Priority Focus Area | Key Actions | Key Performance Indicators – (4 years) |
| Safe & Healthy Our people work to the highest safety standards and their wellbeing is paramount | <ul style="list-style-type: none"> Safety Improvement Program Wellbeing Program Work Life Balance Program Injury Management Process | Workplace Injuries Current = 19 Target = NIL |
| Skilled & Responsive Our people are highly skilled and have the ability to adapt to the ever changing environment | <ul style="list-style-type: none"> Succession Planning Model Employee Development Plans Cadet, Apprentice & Trainee (CAT) Program Business Improvement Program | Employee Retention Current = 90.9% Target = 95% |
| Committed & Engaged Our people are highly engaged and committed to the services we deliver and the community we serve | <ul style="list-style-type: none"> Workforce Engagement Program Leadership Development Program Workforce Participation Strategy Reward & Recognition Program Change Management Methodology | Employee Engagement Current = 54% Target = 66% |
| Systems & Processes Our people and safety processes are effective and efficient and we meet our compliance obligations | <ul style="list-style-type: none"> Workplace Relations Process Workplace Relations Practices Audit Safety Management System Payroll Services EEO Management Plan | Community Satisfaction Current = 70.6% Target = 73% |
| Plan & Review Our approach is regularly reviewed and monitored to ensure ongoing success and business integration | <ul style="list-style-type: none"> Workforce Management Strategy Employee Engagement Survey People Metrics Service Standards Workforce Profiles | Delivery Plan Outcomes Current = 100% Target = 100% |

Table 4-1: BMCC Key actions - Workforce Management Strategy 2017-2027

4.8 implementation

The General Manager is ultimately accountable for the delivery of the Blue Mountains City Council *Workforce Management Strategy*, however, everyone in the organisation plays an integral part in ensuring its success.

While the People & Systems Group has carriage for facilitating and coordinating the implementation of the associated programs and initiatives across the organisation, the leadership team and line management will take an active role and be responsible for ensuring integration of the *Workforce Strategy* with respective business plans and activities.

Underpinning the workforce's involvement in the overall strategy is an effective communication process, which includes appropriate consultation and feedback mechanisms. The communication process needs to ensure the workforce understands the rationale of the strategy, the respective programs and initiatives and most importantly, how it will affect them.

4.9 monitor and evaluate

The *Workforce Management Strategy* needs to be monitored and evaluated on a regular basis to ensure it remains relevant, is delivering the outcomes expected and meets the objectives in the Council's Delivery Program and ultimately the *Community Strategic Plan 2035*.

This process will be undertaken in the context of the organisation's risk management framework that will monitor the changing external and internal environment and regularly review and assess emerging risks. This approach recognises that the development of a strategy is not a "set-and-forget" exercise and will ensure adjustments and changes to the strategy will be undertaken in an effective and timely way.

The key indicator of a successful workforce plan is that Council's overall delivery program, in response to *Community Strategic Plan 2035*, is able to be resourced and met. To monitor progress and evaluate the success and strength of the Blue Mountains City Council *Workforce Management Strategy*, a suite of key metrics has been developed and implemented. These measures are designed to measure effectiveness of the various workforce initiatives and to demonstrate "value for money".

The first key people indicator relates to health and safety of the workforce. The measure used to demonstrate the effectiveness and commitment to organisation health and safety is the number of Workplace Injuries.

Effective and proactive management of the workforce health and safety is a key impact on employee morale and productivity and can have real impact on overall premium costs.

(Figure 4-1) shows the trend of **Workplace Injuries** over recent years. As the graph demonstrates there has been considerable improvement at Blue Mountains City Council over recent years, however, when we consider people being injured and the impact this can have on an individuals, their families and colleagues, there is really no level of workplace injuries we can comfortably accept.



Figure 4-1 Workplace injuries at Blue Mountains City Council

The second key people indicator is the retention rate. The retention rate, ultimately supports the Employee Engagement Score and is a key metric to understand the “health” of an organization. This metric is able to be benchmarked against industry and business sectors to provide context to the measure.

Employee Retention at Blue Mountains City Council has decreased over the last 2 years by 6.2% to a rate of 90.9% in 2016 (Figure 4-3). Blue Mountains City Council is sitting around the average retention of staff when benchmarked against other NSW Councils, as evidenced in the NSW Council LGSA Survey - Retention Rate Average of 90.14% (2016).

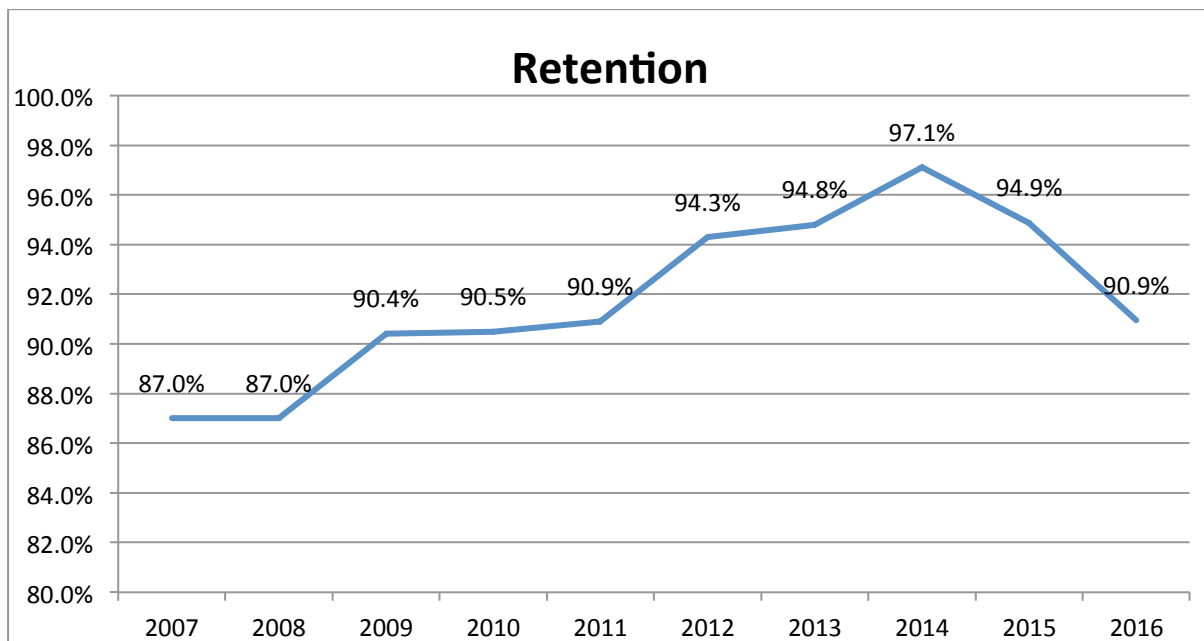


Figure 4-3 Employee retention at Blue Mountains City Council

Modern organisational research suggests what separates a high performing organisation from the pack is the creation of an environment in which individuals feel empowered and valued where they have a sense of purpose about how they can make a difference to the community they serve. Essentially, this means the way people are led is a vital ingredient to success.

Therefore, the ultimate measure of success of any workforce strategy is the level of workforce engagement. At Blue Mountains City Council this is measured through a bi-annual survey that all employees are encouraged to participate in. The key measure from this process is the Employee Engagement Score.

Up to 2015 the employee survey instrument focused on measuring employee satisfaction. Over the last 5 years satisfaction rates were consistently high and response rates increasing, 63.7% and 76% respectively. In 2016 it was proposed that BMCC was ready to move away from a “Satisfaction Survey” to an “Engagement Survey”. This was seen as a logical progression from the work we have been doing on “Strengthening Leadership” and the development of communication and relationships across the organisation (DiSC) and enables us to better assess and gain feedback on indicators more positively correlated to performance and productivity.

Research has proven that highly engaged employees out-perform other organisations on a range of business and people measures including, revenue growth, income and employee retention. This is represented by better alignment and commitment to the direction of the organisation by employees. AON Hewitt’s “Best Employers” is Australia and New Zealand’s leading research program into people practices of high performing organisations. The program identifies Best Employers excel in 4 critical areas of talent management;

Engagement - Employees speak positively about the organisation, have a strong desire to stay, and exert discretionary effort in their work.

Leadership – Leaders and managers engage employees in the vision and lead the company to success.

Performance – Employees are aware of the company goals and their personal contribution to achieve high performance.

Employer Brand - The organisation enjoys a continuous supply of qualified talent needed to achieve business goals.

These critical areas support our Fit for Future priorities and will play a key role in ensuring we have the skills and capability to deliver on the organisation's priorities.

Figure 4-4 below shows the Blue Mountains City Council Employee Engagement results for 2016. As the graphic shows the Blue Mountains City Council result of 54% is not too far behind the Local Government Industry Benchmark of 57%. However there is room for significant improve Employee Engagement and realise significant performance and productivity benefits.

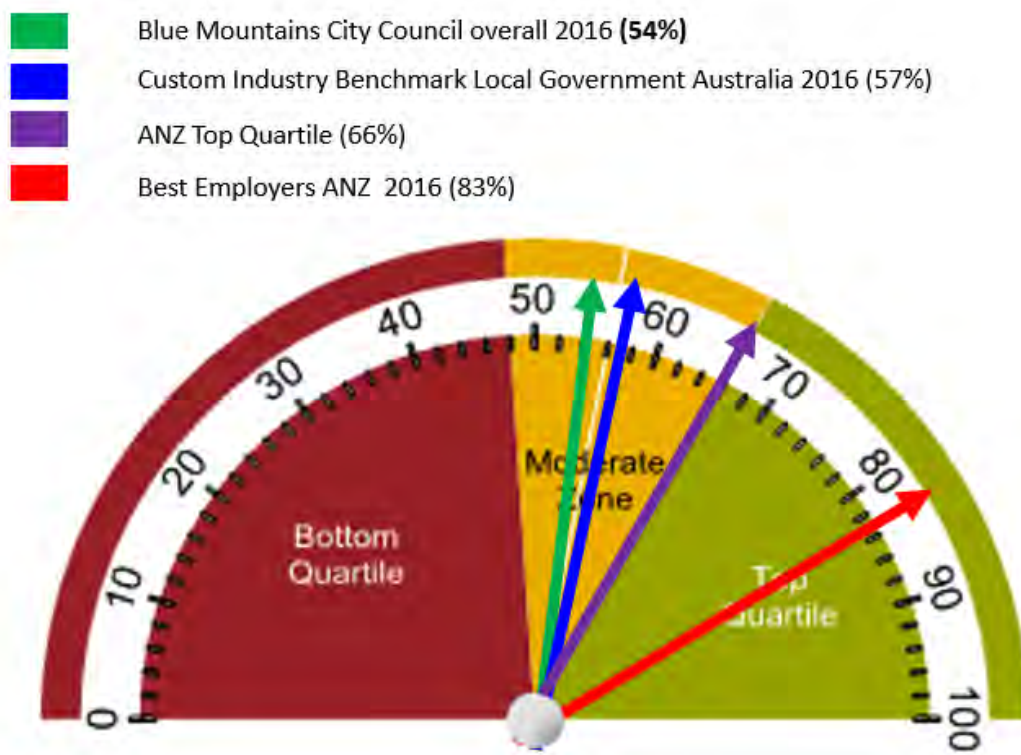


Figure 4-4: Employee Engagement Survey at Blue Mountains City Council

4 YEAR TARGETS:

| Target | Current | Future |
|------------------------|----------------|--------|
| Workplace Injuries | 19 | 0 |
| Community Satisfaction | 70.6% (3.53/5) | 73% |
| Delivery Plan Outcomes | 100% | 100% |
| Employee Engagement | 54% | 66% |
| Employee Retention | 90.9% | 95% |

together



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