Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

Ku-ring-gai Council
Date Submitted to IPART:
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The Tribunal members for this special variation assessment are:

Dr Peter J Boxall AO, Chairman

Mr James Cox PSM, Chief Executive Officer and Full Time Member

Mr Simon Draper, Part Time Member

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1 Introduction

This form must be completed by councils when applying for a special variation to general income under either section 508A or section 508(2) of the *Local Government Act 1993*.

Councils should refer to the Division of Local Government (DLG), Department of Premier and Cabinet *Guidelines for the preparation of an application for a special variation to general income* (the Guidelines) in completing this application form. The Guidelines are available on the Division's website at www.dlg.nsw.gov.au.

In November, IPART will also publish Fact Sheets on our role in local government rate setting and special variations, and community engagement for special variation applications. The Fact Sheets will be available on our website at www.ipart.nsw.gov.au.

This part of the application (Part B) must be completed in conjunction with the relevant Part A form– either:

- *Section 508(2) Special Variation Application Form 2013/14 – Part A* for single year applications under section 508(2) or
- *Section 508A Special Variation Application Form 2013/14 – Part A* for multi-year applications under section 508A.

This part of the application consists of:

- Section 2 - Focus on Integrated Planning and Reporting
- Section 3 – Criterion 1: Need for the variation
- Section 4 – Criterion 2: Community engagement
- Section 5 – Criterion 3: Rating structure and impact on ratepayers
- Section 6 – Criterion 4: Delivery Program and Long Term Financial Plan assumptions
- Section 7 – Criterion 5: Productivity improvements and cost containment strategies
- Section 8 - Other information (past Instruments of Approval (if applicable), reporting arrangements and the council's resolutions)
- Section 9 – Checklist of application contents
- Section 10 - Certification by the General Manager and the Responsible Accounting Officer.

1.1 Information requirements

The spaces provided in each section of this application form may be extended as required to fit information. Each section must be completed before we can assess the application.

Please note that the amount of information to be provided under each criterion is a matter of judgment for the council.

In general, the level of information to be provided should be proportional to the size or complexity of the council's request. Therefore, for relatively small requested increases in general income, less information is necessary than for larger increases. However, you still need to provide enough information and evidence to enable the Tribunal to assess each criterion.

The council may also submit supporting documents, including confidential documents, as part of the application. Supporting information should be relevant extracts of existing publications, if any, rather than the full publication.

If necessary, we may seek further information from you.

1.2 Submitting your application

Both Part A and Part B of the application should be completed and submitted online via the Council Portal on IPART's website at www.ipart.nsw.gov.au. A signed copy of the certification should be attached to the Part B form. We suggest that you access the User Guide for the Portal, also available on our website, to assist you in the online submission process.

Please note that file size limits apply to each part of the application in the online submission process. The limit for Part B forms is 10MB and the limit for all supporting documents together is 120MB (70MB for public documents and 50MB for confidential documents). This should generally be sufficient for the majority of council applications.

Please also submit your application to us in hard copy with a table of contents and appropriate cross referencing of attached plans and reports to:

Local Government Team
The Independent Pricing and Regulatory Tribunal
Level 17, 1 Market Street, Sydney NSW 2000 or
PO Box Q290, QVB Post Office NSW 1230

We will post all applications on our website. You should also make your application available to your community through your website.

You are required to submit your application online via the Council Portal on our website and in hard copy by **cob Monday 11 March 2013.** We encourage you to submit your application as early as possible.

Councils intending to submit an application under section 508A are also required to notify IPART of this intention by **cob Friday 14 December 2012.**

Notification is not a requirement for councils intending to submit an application for a single-year increase under section 508(2), but it would help us in our planning if you did notify us of your intentions by this date.

2 Focus on Integrated Planning and Reporting (IP&R)

How a council has considered and consulted on a special variation in its Integrated Planning and Reporting (IP&R) process is fundamental to our assessment of a special variation application. This is consistent with DLG's October 2012 Guidelines.

As part of our assessment, we will examine whether the council's planning and consultation, as evidenced in its IP&R documents, meets the criteria for a special variation. For example, we will look closely at how the community's service priorities and feedback regarding various revenue options are reflected in the council's application for the special variation.

- Has the council completed its I&PR documents and relevant annual reviews of plans?

Yes **X** No ☐

If the answer is *No* and your council still wishes to proceed with a special variation application, we advise you to discuss your IP&R progress and options with us.

The Guidelines provide for transitional arrangements in 2013/14 regarding IPART's assessment of criteria related to the IP&R process (see Box 2.1).

x 2.1 Transitional arrangements for assessment in 2013/14

The Guidelines provide for transitional arrangements as follows:

In light of the 2012 local government elections and the requirement for councils to review the Community Strategic Plan and Delivery Program and develop an Operation Plan by 30 June 2013, it is recognised that the revised guidelines and application timing may create a difficulty for councils who wish to apply but have not yet completed the necessary IP&R review.

Therefore, for the 2013/14 rating year only, IPART will have the discretion to award a single year variation where it assesses that the general principles of need, community awareness, reasonable ratepayer impact, realistic financial planning assumptions and cost containment and productivity achievement related to the assessment criteria are met by a council, even though the evidence is not necessarily reflected within the councils IP&R documentation.

2.1 Summary of relevant IP&R documentation

Expand the space below to briefly explain the council's IP&R process in the context of the special variation. Include when plans (eg, Asset Management Plan (AMP) or Long Term Financial Plan (LTFP)) first identified the need for a special variation, and when all relevant IP&R documents were reviewed and finalised. If the council has not yet finalised all of the relevant reviews of plans, explain when this is likely to occur.

Ku-ring-gai Council has completed and adopted the following IP & R documents:

- *Community Strategic Plan 2030 – adopted 2009*
- *Delivery Program and Operational Plan 2012-2013*
- *Asset Management Policy - adopted 2009*
- *Asset Management Improvement Strategy - adopted 2010*
- *Asset Management Plans for all infrastructure assets (these are listed in detail below)*
- *Long Term Financial Plan – first adopted in 2001 and is revised and adopted annually*
- *Work Force Plan – adopted 2009*

Council has adopted Asset Management Plans for the following asset classes:

- *Asset Management Plan for Roads – 22 February 2011(revised 26 Feb 2013)*
- *Asset Management Plan for Plant and Fleet – 24 July 2012*
- *Asset Management Plan for Footpaths – 22 February 2011*
- *Asset Management Plan for Kerb and Gutter – 22 February 2011*
- *Asset Management Plan for Bridges – 22 February 2011*
- *Asset Management Plan for Street Furniture – 22 February 2011*
- *Asset Management Plan for Buildings – 22 February 2011*
- *Asset Management Plan for Drainage – 22 February 2011*
- *Asset Management Plan for Recreation Facilities – 13 December 2011*
- *Asset Management Plan for Car Parks – 13 December 2011*

Ku-ring-gai Council was a Group 1 Council for the purposes of IP & R. Council is currently in the process of revising all our IP & R documents inline with the Division of Local Government's requirements. This includes a review of the Community Strategic Plan (CSP), development of a new four (4) year term Delivery Program & annual Operational Plan. Council has resolved an adopted timetable for this process and the report and timetable is included in the attachments.

A critical component of this process is the development of a new Resourcing Strategy which integrates the LTFP, Asset Management Strategy & Workforce Plan to support the objectives identified in the CSP. Council's current resourcing Strategy comprises of three (3) individual components i.e. LTFP, an Asset Management Improvement Strategy and Workforce Plan.

Council's revised Asset Management Strategy will be based on recent research and consultation with the community on the "Closing the Gap" Survey, which was undertaken in 2012. This consultation sought input from our community on acceptable levels of service over a range of asset classes. The consultation also focussed on community priorities and levels of support to fund and improve our public assets. A copy of the results is attached to the application. The findings and recommendations from the survey will be incorporated in the draft Asset Management Strategy, for Council to consider as part of a suite of IP & R documents to be adopted by 30 June 2013.

The Roads Asset Management Plan confirms the need to increase the level of funding for roads to address the backlog. Council's asset data is reviewed annually to take into to account completed works and price variations associated with material and contract costs. A further review has been carried out and a revised Roads Asset Management Plan was adopted by Council on 26 February 201. This takes into consideration the service level requirements identified in the recent community survey results along with adjustments to the residual values for the surface and pavement components for roads.

The research survey confirmed that roads represented the highest concern in the community and the service level accepted by the community for roads was considered to be "Fair" or level 3. Consequently, Council's Asset Management Plan for Roads indicates the level of funding required to maintain Council's road network at a "fair" standard. Without the continuation of the roads levy, it will not be possible to maintain Council's roads to this service level standard in the future.

An additional survey specifically for the purpose of the levy has been carried out and the level of support for the continuation of the infrastructure levy for roads was rated as 71% in support of the continuation of the infrastructure levy.

Council's Long Term Financial Plan assumes the continuation of the Infrastructure levy and this has been recognised in the financial statements shown in the Delivery Program and Operational Plan 2012-2013.

On 24 July 2012, Council resolved to apply for an extension of the Infrastructure levy for five years. A copy of Council's resolution is attached to this document.

Included in the attachments are copies of the following documents:

Community Strategic Plan 2030

Adopted Delivery Program and Operational Plan

Adopted Long Term Financial Plan

Adopted Workforce Plan 2009

Adopted Asset Management Improvement Strategy

Adopted Asset Management Policy

Adopted Asset Management Plan for Roads

Fair Valuation asset data for all asset classes

Community Consultation on Closing the Gap

Survey results and consultation for extension of Roads Levy

Report to Council and Resolution on the Review of the Community Strategic Plan and Community Engagement Strategy.

3 Criterion 1: Need for the variation

In this section, you should present a case for the proposed revenue increases by showing why the special variation is needed. The need must be identified and articulated in the council's IP&R documents, including the Delivery Program and LTFP, and AMP where relevant.

3.1 Variations for capital expenditure

Does the purpose of the proposed special variation require the council to undertake a capital expenditure review in accordance with Council Circular 10-34?	Yes ☐ No **X**
If *Yes*, has a review been undertaken?	Yes ☐ No ☐
If *Yes*, has this been submitted to DLG?	Yes ☐ No ☐

3.2 Strategic planning information

In the section below, provide commentary on how the need for the special variation is reflected in the council's strategic planning documents (ie, Community Strategic Plan and Delivery Program). Provide extracts from or references to the council's IP&R documents as relevant.

Explain the likely benefits of the project, works or other activity the council is proposing to undertake with the additional special variation funds, as outlined in the IP&R documents.

If you are seeking funding for contributions plan costs above the development contributions cap, see Box 3.1.[1]

Box 3.1 Special variations for development contributions plan costs above the developer cap

For costs above the cap in contributions plans, a council must provide:

- a copy of the council's s94 contributions plan
- a copy of the Minister for Planning and Infrastructure's response to IPART's review and details of how the council has subsequently amended the contributions plan
- details of any other funding sources that the council is proposing to seek to use
- any reference to the proposed contributions (which were previously to be funded by developers) in the council's planning documents (eg, LTFP and AMP)
- any necessary revisions to financial projections contained in the LTFP and AMP to reflect the special variation.

Funding from the extension to the Infrastructure levy will be used entirely to fund Council's road works that is additional to the funding provided by Council, the Roads and Maritime Services and the Federal Government under the Roads to Recovery program.

From the levy, Council receives approximately $2.6 million per annum and the overall annual allocation for road renewal and maintenance is approximately $8.8 million. The projected funding required (based on the cost to renew and maintain assets with a remaining useful life of less than ten years) is $14.5million annually. This is shown in the Roads Asset Management Plan dated February 2013.

Council's Community Strategic Plan 2030 (CSP), confirms the vision, goals and objectives of our community. The CSP is broken into six themes of;

- *Community development*
- *Urban environment*
- *Natural environment*
- *Planning and development*
- *Civic leadership and corporate services*
- *Financial sustainability*

Council's Delivery Program and Operational Plan 2012-2013 (DP & OP), indicates the level of funding derived from the Infrastructure levy[2]. The adopted DP & OP assumes a continuation of the funding for four years. Council's Long Term Financial Plan assumes a continuation of the funding for the levy for the life of the LTFP.

1 See Planning Circular 10-025 at www.planning.nsw.gov.au for the most recent Direction issued under section 94E of the *Environmental Planning and Assessment Act 1979*. See also Planning Circular PS10-022.

2 Delivery Program & Operational Plan 2012-2013 – page 62

As indicated in the Roads Asset Management Plan, the funding gap for the next ten years equates to $5.7million annually, and if Council is unsuccessful in its application for the levy, the impact would see funding gap of $8.3 million.

Of Council's roads, over 56% are rated as poor and very poor and the cost to bring the roads to a satisfactory standard is estimated to be in excess of $80 million[3]. Therefore, the levy ensures that Council has the capacity to provide additional funding to reduce the gap, and continue to bring Council's roads to a fair standard within an established time frame.

The benefits of bringing Council's roads to a satisfactory standard will help reduce the annual maintenance requirements and also the cost of future road works as it is much cheaper to maintain a road in good condition compared to a road in poor condition.

To demonstrate this point, the length of Council's roads is 481 kilometres and the cost of resurfacing the roads is $25 per square metre. Therefore, based on a life cycle of 25 years and an average width of 9 metres, the cost of resurfacing is $4.3 million so if Council was able to achieve a fair standard for its roads, the allocation per annum could be significantly reduced.

3.3Financial planning information

The justification for the special variation and its timing must be based on the council's Long Term Financial Plan (LTFP). The LTFP needs to include various budget scenarios, including scenarios with and without the special variation, that are based on clear and reasonable assumptions (see Section 6).

In the section below, explain the need for the variation in the context of the LTFP and the various budget scenarios. Provide extracts from or references to the LTFP as necessary.

It may also be useful to comment on external assessments of the council's financial sustainability (eg, by Treasury Corporation), or the council's recent revenue and expenditure history and how this relates to the need for the additional funding from the special variation.

Extracts from Council's draft LTFP with two projected scenarios (with and without the infrastructure levy) are attached to this application. It should be noted that these extracts are not from the currently adopted version of LTFP referred to in Section 2.1. They are from a new version of LTFP currently being prepared. This new version will be finalised and adopted as part of Council's Delivery Program 2013/14 – 2016/17 & Operational Plan 2013/14 in June 2013.

Both Council's adopted LTFP and Draft LTFP currently in preparation forecast the continuation of the infrastructure levy beyond its expiry date. It is estimated that the special rates variation will produce the

[3] Asset Management Plan Roads – 2013 – page 59

following increase in Council revenue over the next 5 years to 2017/18. This is also reflected in the LTFP Scenario 1 (with SRV).

	Budget 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18
Infrastructure Levy Special Variation Component	2,625,200	2,725,000	2,831,300	2,944,600	3,059,400
Less: Pensioner Rebates	-22,400	-22,800	-23,200	-23,600	-23,900
Levy Available for Project Funding	**2,602,800**	**2,702,200**	**2,808,100**	**2,921,000**	**3,035,500**

Without the levy, Council would need to reduce the amount of expenditure on roads and adjust the LTFP accordingly. This would have a major impact on the road network as there is already a significant gap in Council's road funding required to achieve a fair standard of service.

The loss of revenue from the levy will also have a negative impact on Council's operating result which will result in decreased funding available for capital projects.

As part of the Financial Assessment and Benchmarking Report performed by Treasury Corporation in September 2012 one of the risks identified for Council was:

- *"Asset Backlog. Council has a sizeable asset backlog and is undertaking community consultation to ensure that Council is focusing on the appropriate asset standards for renewal and maintenance. Additionally, Council is reviewing the useful lives of assets to ensure that these are accurately reflected in their LTFP."*

Included in the attachments is a program of works funded by the levy for the next five years. If continuation of the variation is not approved, the roads program will need to be reduced by eliminating levy funded projects, so that the total program value each year equals only the funding available from other sources.

If Council is unsuccessful in obtaining the levy, the condition of council's roads will worsen and the gap in funding will broaden significantly and Councils roads assets will deteriorate further. As shown in the Asset Management Plan and fair value data spreadsheet, the cost to bring our roads to a satisfactory standard is $137million by 2022. Without the levy, the cost to satisfactory will increase to $163million by 2022 and this will also increase the funding gap in funding from $5.7million to $8.3million.

If possible, also explain how the council has prioritized the proposed spending in its program of expenditure (incorporated into its LTFP and as indicated in Worksheet 6 of Part A of the application form). If a special variation application is approved for a lesser amount than requested, it is useful for the council to be able to indicate which projects would be funded first.

The Roads Program is based entirely on a Pavement Management System (PMS) which prioritises the roads program based on available funding. If the levy was reduced or not approved, the PMS would recalculate the program based on the reduced level of funding and a new program would be developed. The likely scenario would be for various roads in the current program to the shifted to future years.

The PMS looks at preventative intervention measures to prevent roads from deteriorating further and costing more in the long term so the impact of a funding cut is more likely to reduce the amount of work done on poor and failed roads and concentrate on those roads which are in fair condition to ensure that they do not deteriorate further.

3.3.1 Alternative options

In explaining why the special variation is needed, you should indicate how the council has considered a range of alternative financing options (eg, borrowing, private public partnerships, joint ventures, user pays) and why the special variation is the most appropriate option. It is important that you explain how the decision to apply for the variation has been made after all other options (ie, alternative revenue sources, changing expenditure priorities, alternative modes of service delivery) have been considered.

Once again, provide extracts from, or references to, the LTFP which shows the council's consideration of alternative revenue options.

As roads are a consumable, the possibility of private public partnerships and joint ventures is not practical as they are unlikely to return an investment. Also, Council would not be able to place a toll on its roads.

Council has recently reviewed a number of services and this was undertaken by an external consultant. Recommendations from the review have been implemented and are ongoing. These are further discussed under Criterion 5.

Council's assets are generally less than fair for each class of asset and the expectations from residents indicates that they expect more funding on Council's assets. However, the Asset Management Strategy will examine the allocation of funding and priorities but from the consultation process, Council's roads rate very highly with our residents and expect Council to fix up the poor condition roads as soon as possible.

As the residents are currently paying for the levy and have supported the levy in the past, there is a willingness to pay for the upgrade through the levy and any additional funding that can be achieved through organisational efficiencies will be directed to improve Council's assets.

Council has taken up the option for a loan under the LIRS program for the other asset upgrades. This has been factored into the LTFP and further opportunities will be considered. However, Council has other strategies relating to borrowings and these strategies need to be factored in before any additional borrowings can be considered.

A more detailed explanation of Council's Borrowings Strategy is provided below.

Borrowing Strategy

The Borrowing and Debt Strategy is one of the major underlying principles incorporated into Council's Long Term Financial Plan. As per this Strategy, Council considers borrowings as a source of funding for:

- *Building or purchase of infrastructure assets where a Capital Expenditure Review and detailed cash flow analysis shows that full funding costs can be recovered over the life of the asset*
- *Economic investments where a new asset or service decreases existing costs or provides new revenue in excess of their funding costs (positive NPV)*

In an emergency

- *Using this strategy, the LTFP identifies a permissible level of borrowing in each year and sets a required level of borrowing below this level. This is a borrowing level that the Plan regards as sustainable, principally because:*
- *sources of debt repayment have been identified and modelled into overall cash flows, and*
- *the Debt Service Ratio (DSR) is within Council's target band of less than 4%.*

Maintaining a maximum Debt Service Ratio of 4% in any one year is one of the key financial sustainability tests applied by the LTFP. During the current planning period, this test will not be satisfied due to Council borrowing for the LIRS (Local Infrastructure & Renewal Scheme) loan, and the special loan for the Services Relocation Strategy which will have major repayments of principle, in excess of required minimums, timed to co-inside with asset sales.

Due to the above borrowings, Council's Debt Service Ratio will exceed the sustainable borrowing level of 4%. The Debt Service Ratio for the next 5 years is provided in the table below:

Debt Service Ratio	
2013/2014	3.9%
2014/2015	14.4%
2015/2016	15.6%
2016/2017	0.9%
2017/2018	0.4%

Council currently plans to borrow a total of $28.4 million in 2012/13 for the Services Relocation Strategy mentioned above and other capital projects. The repayment source for this debt is the sale of other Council properties no longer required following purchase of a new property for the service relocation. It is planned to discharge the debt and interest payments as the properties are sold over the next three years.

The use of borrowings to address an ongoing deterioration of roads is not only inappropriate at a time where Council's debt levels are very high, but is also in contravention of our borrowing strategy in that it has no significant future cash flow benefit and the debt could only be serviced by eliminating or curtailing other *projects. This causes overall rate of infrastructure renewal to be lower over time and the average quality of infrastructure to deteriorate faster as the debt funding adds an interest burden.*

A 'Financial Assessment and Benchmarking Report' was prepared by Tcorp on 26 September 2012 to support Council's application for a $2million loan under the Local Infrastructure Renewal Scheme (LIRS). The report concluded that Council could service this loan and had, "based on a benchmark of [Debt Service Cover ratio] DSCR>2x except for 2015 and 2016 which include extraordinary debt repayments funded by asset sales, $44.4M could be borrowed in addition to the $2M borrowings proposed under LIRS in 2013".

Council considered that this grossly overestimates its borrowing capacity, for several reasons:

1. Calculations based on broad ratios such as DSCR (or, more appropriately the Debt Service Ratio, normally used in the Local Government sector) are necessarily guidelines only as neither ratio considers all financial factors involved in Council's ability to service debt. Further, a benchmark of a DSCR of 2x being a standard for acceptability is also somewhat arbitrary. This standard means that half of Council's free cash flow would be devoted to servicing debt as compared to a historical average of around 15%. Ratios of 2x are more possible in the private sector where funds are borrowed to invest in projects which produce increased cash returns i.e. increase the DSCR above its current levels. Councillors and their constituents would certainly be uncomfortable with such a ratio benchmark.

2. In calculating DSCR (or DSR), all revenue that is externally restricted needs to be eliminated as this is not free cash available for servicing debt. In Council's case this revenue averages $10.6M pa over the next 5 years. The following shows DSCR with all revenue included and a DSCR with restricted revenue excluded:

	Actual 2009/10	Actual 2010/11	Actual 2011/12	Budget 2012/13	Budget 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20
Including restricted Income	8.0	6.9	10.7	5.5	4.3	1.4	1.3	24.7	52.5	61.3	89.6
Excluding restricted Income	5.3	2.1	5.4	1.8	1.6	0.7	0.7	14.0	29.6	32.9	45.8

Note there is also around $1million per annum in revenue that Council internally restricts to capital works not included in the above calculations.

3. Council's LTFP has accounted for much of the benefits of the improvement in the operating position by increasing the size of its capital expenditure in future years. This partly addresses the infrastructure backlog and also provides funding for the gap totalling a currently estimated $83million between liability for expenditure on new facilities and income from development contributions. This is why an approach described above, where individual project proposals are evaluated for their ability to enhance future cash flows to repay debt is much preferable to simply borrowing because a broad indicator shows this to be an acceptable strategy.

4. Over the next 3 years, Council considers that it has depleted all its borrowing capacity with major projects being funded largely by loans and consequent risks in being able to realise the full benefits of these projects to repay these loans. The Tcorp report has recognised this situation as it qualifies its assessment that Council is able to borrow $44.4million with the statement that "we would recommend a subsequent review of the Councils financial position nearer the time [2016] to confirm if [there is capacity to take on further borrowings]"

3.3.2 Impact of special variation on key financial indicators

Outline below how the special variation impacts the council's key financial indicators over the 10 year planning period, as identified in the LTFP. This should include the impact on key indicators under the various budget scenarios (with and without the special variation).

Key indicators may include:

- Operating balance ratio (net operating result (excluding capital items) as a percentage of operating revenue (excluding capital items))
- Unrestricted current ratio (the unrestricted current assets divided by unrestricted current liabilities.)
- Rates and annual charges ratio (rates and annual charges divided by operating revenue)
- Debt service ratio (net debt service cost divided by revenue from continuing operations)
- Broad liabilities ratio (total debt plus cost to clear infrastructure backlogs (Special Schedule 7) divided by operating revenue)
- Asset renewal ratio (asset renewals expenditure divided by depreciation, amortisation and impairment expenses)

If the variation is to fund asset or infrastructure expenditure, the application should include an explanation of relevant asset replacement, renewal or repair expenses, and how the expenditure addresses backlogs over time.

Council's financial performance and position is measured against the following performance indicators:

- ***Operating balance ratio*** *– assesses Council's ability to fund operations including asset renewals/upgrades (and depreciation).*

- ***Unrestricted current ratio*** *- the ability to meet short term financial obligations such as loans, payroll and leave entitlements (measures liquidity)*

- ***Rates and annual charges ratio*** *- assesses the degree of Council's dependence upon revenue from rates and annual charges and the security of Council's income*

- ***Debt service ratio*** *- assesses the impact of loan principal and interest repayment on the discretionary revenue of Council*

- ***Broad liabilities ratio*** *- assesses the impact of total debt plus infrastructure backlog (Special Schedule 7) relative to total operating revenue*

- ***Building & Infrastructure Renewal ratio*** *- assesses the rates at which assets are renewed relative to the rate at which they are depreciated (consumed)*

Tables below provide the impact on Council's key indicators under the two budget scenarios: with and without continuation of the infrastructure levy.

Scenario 1. Key Performance Indicators - With the Special Variation

Description	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20	Projected 2020/21	Projected 2021/22	Projected 2022/23
Operating Balance Ratio (%)	-1.4%	2.3%	3.5%	6.5%	7.9%	7.9%	7.7%	7.5%	8.5%	9.0%
Unrestricted Current Ratio	1.12 : 1	1.08 : 1	1.77 : 1	2.36 : 1	2.59 : 1	3.16 : 1	3.30 : 1	3.81 : 1	3.96 : 1	3.8:1
Rates & Annual Charges Ratio (%)	53%	52%	51%	49%	49%	49%	49%	49%	50%	50%
Debt Service Ratio (%)	3.9%	14.4%	15.6%	0.9%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Broad Liabilities Ratio (%)	162%	145%	125%	122%	117%	120%	117%	113%	109%	100%
Building & Infrastructure Renewal Ratio (%)	1.4%	1.6%	1.8%	1.3%	1.9%	1.3%	1.6%	1.6%	1.7%	1.6%

Operating Balance Ratio is one of the most important financial indicators for Council. Council's long term financial sustainability is dependent upon ensuring that on average over time this indicator is positive, making sure that Council's expenses are below its associated revenue. Council's Operating Balance Ratio for the year 2013/14 is expected to drop to (-1.4%), well below the target level of 4% even with the continuation of the levy. Council will run an operating deficit in 2013/14 due to increased borrowing expense, after which an operating surplus is projected from 2014/15 onwards.

Debt Service Ratio is considerably high in 2014/15 and 2015/16 due to increased level of borrowing costs. This Ratio will drop significantly in 2016/17. A more detailed assessment of borrowing costs is discussed in Section 3.3.1- Alternative Options.

Broad Liabilities Ratio*: Even with the continuation of the levy this ratio is large mainly because of the sizeable infrastructure backlog that Council experiences.*

Scenario 2. Key Performance Indicators - Without the Special Variation

Description	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 2018/19	Projected 2019/20	Projected 2020/21	Projected 2021/22	Projected 2022/23
Operating Balance Ratio (%)	-4.1%	-0.1%	1.2%	4.4%	5.9%	6.0%	5.9%	5.7%	6.7%	7.3%
Unrestricted Current Ratio	1.13 : 1	1.09 : 1	1.79 : 1	2.39 : 1	2.63 : 1	3.21 : 1	3.34 : 1	3.85 : 1	4.00 : 1	3.8:1
Rates & Annual Charges Ratio (%)	52%	51%	50%	48%	48%	48%	48%	48%	48%	48%
Debt Service Ratio (%)	4.0%	14.7%	16.1%	0.9%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Broad Liabilities Ratio (%)	166%	148%	127%	124%	119%	123%	119%	115%	111%	100%
Building & Infrastructure Renewal Ratio (%)	1.2%	1.4%	1.6%	1.1%	1.7%	1.1%	1.5%	1.4%	1.5%	1.6%

If Council does not receive an approval for continuation of the infrastructure levy and makes no other accommodating adjustments to its spending or revenue raising policies, the operating balance ratio as well as the debt service ratio will both deteriorate. On average over the 10 year LTFP period this result would see a permanent 2.2 percentage points cut off the Council's operating balance ratio, and a 0.2 percentage points increase in its Debt Service Ratio. The Broad Liabilities ratio will also see an increase of 2.6 percentage points on average, mainly due to high level of borrowing in the next couple of years but also due to a decrease in the Operating revenue from loss of the Infrastructure levy.

4 Criterion 2: Community Engagement

To meet this criterion, you must provide evidence from the council's IP&R documentation that the council has consulted on the proposed special variation and that the community is aware of the need for, and the extent of, the rate increases. You should also show that the council has sought to obtain community input on both the proposed spending area, the revenue path in the council's LTFP incorporating the council's proposal, and the community's willingness to pay the rate increases.

In assessing the evidence, we will consider how transparent the council's engagement with the community has been, and that the information provided to the community shows:

- the proposed rate increases including the rate peg;
- the alternative rate levels without the special variation;
- if the requested special variation includes an expiring special variation (see Box 4.1 below);
- rates on an annual increase basis (and not just on a weekly basis); and
- if the council is proposing increases for any of its other charges, for example, waste management, when these are likely to exceed CPI increases.

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x 4.1 Does the council seek to renew or replace an expiring special variation?

If so, this needs to be clearly explained to the community. Councils should explain:

that there is a special variation due to expire during the time period covered by the current special variation application, or the time period immediately before

that, if the special variation were not approved (ie, only the rate peg were applied), the year-on-year increase in rates would not be as high, or there would be a rates decrease (whichever is applicable)

if applicable, that the expiring special variation is being replaced with a permanent increase to the rate base.

Refer to DLG's Guidelines, the IP&R manual, and IPART's fact sheet on community engagement for more information about how community engagement might best be approached.

4.1 The consultation strategy

In the section below, provide details of the consultation strategy undertaken, including the range of methods used to inform the community about the special variation proposal and to obtain community input on this option (eg, media release, mail out to ratepayers, focus group, survey, online discussion, town hall meeting, newspaper advertisement or public exhibition of documents). Provide relevant extracts from the IP&R documentation to explain the strategy, where possible.

The information should clearly identify:

- key stakeholders in the consultation process
- the information that was presented to the community regarding the special variation proposal
- methods of consultation and why these were selected
- timing of the consultations (including exhibition of Draft Community Strategic Plan, Draft Delivery Program and Draft Operational Plan as applicable).

Attach relevant samples of the council's consultation material to the application.

Ku-ring-gai Council adopted a multimodal approach to engaging community stakeholders on the priority of roads infrastructure and the level of support and capacity to continue paying the special rate. Consultation was conducted in 2012 and again in 2013 to support the development of the Asset Management Strategy and to determine level of support for the levy. Copies of the consultation and the outcomes are included in the attachments to this application.

The engagement undertaken by Council was robust in its approach, transparent and inclusive of a representative sample of the Ku-ring-gai residential community. The approach involved:

1. A community research survey, titled "Closing the Gap", conducted in 2012 to determine the priority of roads infrastructure in comparison to other Council assets

2. A community research survey conducted in 2013 to measure support for the continuation of the infrastructure rate levy and provide an avenue for comment and feedback by residents.

In order to assess the community's response the special rate variation, Ku-ring-gai Council commissioned an independent research organisation, Micromex Research, to conduct quantitative research within the LGA.

Both surveys engaged a statistically representative sample of the Ku-ring-gai community, reaching over 800 residents above the age of 18 years. The sample was weighted by age to reflect the 2011 ABS Census data with a maximum sampling error of approximately +/- 4.9% at 95% confidence.

1. Asset Management Strategy survey – "Closing the Gap"

As part of the delivery of Council's IP&R framework, community stakeholders were engaged about priorities for assets and infrastructure, and support for proposed funding solutions to improve these assets.

A number of community assets were presented to survey participants for review. These included local roads, footpaths, community buildings, sportsfields and ovals, drainage and curb and guttering. Survey participants were asked how important each asset is to the community and their level of support continuing and/or increasing funding to improve the condition of the asset.

The purpose of the study was to determine the priorities of community assets in order to inform the IP&R process.

2. Infrastructure levy survey

The purposes of the survey was to measure community support for continuing special rate levy for roads infrastructure and provide an avenue for feedback and comment. This survey asked a range of questions of Ku-ring-gai residents including:

- *Satisfaction with the quality of infrastructure currently provided by Council*
- *Satisfaction with the quality of long term planning for local infrastructure*
- *Importance of implementing programs to renew local infrastructure*
- *Awareness of the existing infrastructure levy*
- *Support for continuation of the levy*
- *Importance for council being allowed to continue this roads levy*

As part of the survey, each participant was read a concept statement to inform them of the purpose of the infrastructure levy and the financial impact and investment by an average Ku-ring-gai household. Included in the concept statement was:

- *The proposed levy extension*
- *The annual financial costs to an average rate paying household*
- *What the infrastructure would fund*
- *The change in rate levels if the levy was continued*
- *The change in rate levels if the levy was removed*

This concept statement provided the information required for residents to make an informed and educated decision about the importance of the levy and its need for continuation. All survey participants understood how much it would cost them each year and the possible financial savings to their household if the levy was removed. Residents were also informed of households exempt from the paying the levy.

4.2 Outcomes from community consultations

In this section provide a summary of the outcomes from the council's community engagement activities, as presented in the council's IP&R documentation (eg, number of attendees at events, percentage of responses indicating support for certain services/projects or rate increases, overall sentiment of representations, results of surveys).

Also provide a summary of submissions received in response to the exhibition of the Draft Operational Plan where they relate to the proposed special variation. Identify the nature of the feedback related to the proposal (including by relevant stakeholder group) and any action proposed by the council to address issues of common concern.

Attach copies of relevant documentation eg, survey reports to the council.

Findings from the surveys illustrate that local roads are the highest priority asset for Ku-ring-gai residents, with overwhelming support for the continuation of the Infrastructure levy for five years.

- *88% of residents are at least 'somewhat supportive' of Ku-ring-gai Council continuing the special rate variation*
- *92% of residents indicated that it is at least 'somewhat important' that Council be allowed to continue the infrastructure levy*
- *Residents are moderately satisfied with the quality of local infrastructure. Council needs to provide better infrastructure to improve resident satisfaction levels*
- *99% of residents believe it is important to implement plans and programs to renew infrastructure*
- *Just over 1/3 of participants were aware of the levy's inclusion in the rates*

Despite the limited saliency of the levy by residents, the renewal of roads infrastructure is the highest priority for Ku-ring-gai. There is overwhelming support for the continuation of the levy for the next five years with only 12% of residents 'not supportive' of its continuation.

Responses from residents supportive of the levy

"Happy to continue paying the levy in order to see the roads in the area improved"

"I think we will gain more by paying a small amount per year"

"I wasn't aware I was even paying it so won't miss it"

Of the residents not supportive of the levy continuation, the vast majority claimed inefficiency in the roads program and/or better allocation of existing funding as their reason. Few people claimed hardship as a reason for not supporting the levy continuation.

5 Criterion 3: Rating structure and the impact on ratepayers

Councils must also fill in the worksheets in Part A of the application in order to provide the information and calculations underpinning the proposed rating structure, the impact of the special variation and rate increases.

5.1 Proposed rating structure

In the section below, provide an explanation of the proposed rating structure for the variation under two scenarios – the proposed rating structure if approved and the proposed structure should it not be approved.

Two scenarios with and without the infrastructure levy are demonstrated below. The proposed rating structure is discussed further in item 4.2 Impact on Rates.

Proposed rating structure should it not be approved Rate pegging increase of 3.4%				
Rate Type	**Category**	**Rate in $**	**in /Base Amount $**	**Yield $**
General	Residential	0.00086047	473	$23,361,651
General	Business	0.00603267	473	$3,608,980
Special	Environmental	0.00010892		$2,602,613
Special	Infrastructure	0.00048425		$11,571,013
Special	Infrastructure		280	$11,403,840
Special	New Facilities	0.00006878		$1,643,479
Proposed rating structure if approved Rate pegging increase of 8.4%				
Rate Type	**Category**	**Rate in $**	**in/Base Amount $**	**Yield $**
General	Residential	0.00097728	473	$25,655,206
General	Business	0.00638307	473	$3,812,962
Special	Environmental	0.00010892		$2,602,613
Special	Infrastructure	0.00048939		$11,693,943
Special	Infrastructure		280	$11,403,840
Special	New Facilities	0.00006878		$1,643,479

5.2 Impact on rates

Comment on the cumulative impact of the proposed increases on different rating types and categories, as detailed in Worksheet 5 of Part A of the application, and explain why the rate increases are reasonable.

Include an explanation of any differences between the requested percentage increases of different rating types or categories.

Also include commentary on average rates (defined as Notional Income Yield divided by the number of assessments for each rating category, sub-category or special rate) and the impact of the proposed rate increases across the rates distribution.

The proposed rating structure without the approval of the infrastructure levy incorporates a transfer of $2.3M (equal to the reduction in income) from general rates to Council's infrastructure levy rate.

There are two central reasons for this:

- *The total infrastructure rate approximates Council's expenditure on infrastructure renewal and maintenance, and*
- *The infrastructure rate incorporates a base change component which maximises Council's total rates income from growth in numbers of properties into the future. This rates growth has been incorporated into our LTFP and, if it were to be reduced, Council's capacity to maintain an adequate level of infrastructure works would reduce.*

The Residential & Business categories will experience a decrease without the infrastructure levy being granted due to Council transferring funds from its Ordinary General Rates to the Infrastructure levy as Council will continue with this rating structure (which the infrastructure levy forms a part of) and maintain a proposed base amount of $280.00.

The change in rates will not be evenly distributed across all residents. The following table shows changes from actual rates paid in 2012/13 to 2013/14 for five different categories of ratepayers with different property valuations:

GROUP	Typical Valuation	Actual	WITH Infrastructure levy		WITHOUT Infrastructure levy	
		2012/13	2013/14	Change	2013/14	Change
Minimum Rates	250,000	888	920	32	920	32
Average Rates	750,000	1,458	1,511	53	1,418	-40
Pensioner Minimum Rates	250,000	540	569	28	603	62
Pensioner Average Rates	750,000	1,048	1,095	47	1,064	17
Top 200 Ratepayers	2,000,000	3,438	3,565	127	3,316	-122

If the infrastructure levy is not renewed, the residents in the most disadvantaged categories – pensioners on minimum or average rates - are most disadvantaged and will have to pay increased rates as indicated in the table above. This is because these ratepayers are currently granted a voluntary Council rebate of the whole infrastructure levy and this component of their total rebate will be withdrawn as the infrastructure levy component of the infrastructure levy will no longer be charged. The voluntary rebate will be reduced from 11% to 7.5% to account for this.

Provide references from the relevant pages in the council's IP&R documents to demonstrate reasonableness.

The Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. SEIFA confirms that residents of the Ku-ring-gai Council local government area are one of the Greater Sydney Region least disadvantage. In 2006, household income for the Ku-ring-gai LGA stated that 51.2% of persons household income was in the highest income bracket versus the Sydney average of 25%[4]*.*

Council is seeking an extension of an existing infrastructure levy that has been in place since 2001. As such, no additional financial costs will be imposed on the community.

5.2.1 Minimum Rates

Does the council have minimum rates? Yes ☒ No ☐

If *Yes*, provide details of the proposed increase in minimum rates and the proposed share of ratepayers on the minimum rate for the relevant category, with and without the special variation.

[4] *Delivery Program and Operational Plan 2012-2013- page 15*

Proposed Increase	Category	No of Ass	Land Value	Total Infrastructure levy $	Total Infrastructure levy %
Without Infrastructure levy					
3.40%	Residential	15,887	4,887,203,065	$6,814,988	29.66%
3.40%	Business	213	9,186,262	$64,088	0.28%
With Infrastructure levy					
8.40%	Residential	11,601	2,667,197,215	$4,553,580	19.71%
8.40%	Business	201	8,264,143	$60,324	0.26%

The reduction in total income from non-continuation of the infrastructure levy and Council's consequent transfer of this amount from general rates to its Infrastructure levy, means that total general rates are reduced whilst the statutory minimum rate ($473) remains the same, causing more ratepayers to pay minimum rates.

5.3 Community's capacity to pay proposed rate increases

Discuss the capacity of ratepayers (in each sub-category) to pay for the rate increases. Provide relevant supporting information from the council's IP&R documentation, in particular any reference to the "affordability" of the proposed increases. Examples of supporting evidence could include discussion of affordability measures such as SEIFA rankings, land values, average rates and disposable incomes, or the outstanding rates ratio. It could also include comparisons of socioeconomic indicators or rate levels with peer group councils. Remember that the amount of information required is generally proportionate to the size and complexity of the proposed increase.

IPART may consider indicators such as the SEIFA index rankings and income levels, as well as the council's current average rate levels, as part of its assessment of capacity to pay in the LGA, even if the council does not provide this information in its application.

5.4Addressing hardship

Does the council have a Hardship Policy in place? Yes X No ☐

If Yes, is the Policy identified in the council's IP&R documentation?

Yes ☐ No X

Please attach a copy of the policy to the application

Does the council propose to introduce any measures to limit the impact of the proposed special variation on vulnerable groups such as pensioners? Yes X No ☐

Provide details of the measures to be adopted, or explain why no measures are proposed.

Special rate variations are included within Council rates and charges policy for eligible pensioners. The financial modelling undertaken as part of the income anticipated from the renewal of the levy has considered and included exemptions for pensioners. Council's rating policy grants a voluntary pensioner rebate of 11% of the total rates and charges levied. This rebate amount was originally determined to eliminate, on average for all pensioners, the requirement for them to pay any of Council's special rates and the Stormwater Management Levy.

The continuation of the levy will not create hardship as the levy has been in place since 2001 and the community has indicated support for its continuation. However, as discussed in section 5.2, if the existing infrastructure levy for Infrastructure is not continued, the infrastructure component of this pensioner rate rebate, estimated at 3.5%, will need to be subtracted, producing a reduced rebate of 7.5% for 2013/14. This may cause some hardship to pensioners on or close to minimum rates.

6 Criterion 4: Delivery Program and Long Term Financial Plan assumptions

The council's planned service delivery and budgeting must be based on realistic assumptions in order for an application to be approved by IPART.

Given the importance of the Delivery Program and LTFP in providing the strategic and financial justification for a special variation, it is critical that the assumptions underpinning these plans, in particular, are realistic. Questions that we will consider in assessing this criterion include:

- Is the proposed scope and level of service delivery in the Delivery Program appropriate given the council's financial outlook and the community's priorities?
- Are the council's estimates of specific program or project costs which have been incorporated into the LTFP feasible and based on an efficient allocation of resources?
- Are the council's projected cost components (including labour costs) in the LTFP based on realistic assumptions?
- Has the council incorporated other realistic assumptions about the expected rate of growth in the LGA?

In explaining the council's assumptions, identify any industry benchmarks or independent cost assessments that have been utilised by the council in developing them. Also include details of any relevant research or feasibility work undertaken eg, related to new program or project costs.

6.1 Delivery Program assumptions

Explain the key assumptions underpinning the council's Delivery Program and why they are realistic. For example, assumptions will relate to:

- the community's priorities and expectations, in order of importance
- proposed level of service for assets
- speed at which asset backlogs are to be addressed
- speed at which other identified gaps in service provision are addressed.

The intent behind the Community Strategic Plan 2030 is to make Ku-ring-gai more sustainable. We adopted the Community Strategic Plan in 2009, in line with the directions of the NSW Division of Local Government. It is built on sustainability planning outcomes to engage with all generations, considering current programs, the future direction of council, Global Reporting Initiative and the Northern Sydney Regional Organisation of Councils (NSROC) Regional Sustainability Plan 2009-2014.

The Community Strategic Plan provides the necessary long term direction for our organisation to align the delivery of policies, programs and services. However, as with all strategic plans, it must remain adaptable reflecting the continuing shifts in society's values and aspirations, the financial markets, the physical environment and legislation.

In 2001 we developed a Long Term Financial Plan to ensure our long term financial sustainability whilst providing services to the community. In 2007, a new plan was developed to cater for the issues and challenges that face us. The new plan incorporates principles of total asset management, with particular application to new facilities related to town centres. The plan contains a core set of assumptions for revenue and expenditure. It also contains funding strategies which plan for the future by setting aside funds in restricted asset reserves. As part of long term financial planning, we have developed asset management plans, reviewing and quantifying the renewal gap for infrastructure assets, identifying opportunities to broaden the revenue base, and reviewing borrowing strategies. This is an ongoing process. The Long Term Financial Plan will continue to be developed to incorporate these strategies to ensure financial sustainability while maintaining and improving service delivery to the community, maintaining and renewing ageing assets, and providing for new facilities as part of the local centres development.

The Delivery Program is the point where Council takes ownership of Community Strategic Plan objectives that are within its area of responsibility. The Delivery Program is designed as a four year fixed term plan to align with the council electoral cycle. To achieve this, both the Community Strategic Plan and the Delivery Program were developed to address six principal activity areas:

- *Community development*
- *Urban environment*
- *Natural environment*
- *Planning and development*
- *Civic leadership and corporate services*
- *Financial sustainability.*

The principal activity areas provide the connectivity throughout Ku-ring-gai's integrated planning and reporting framework. Each of the actions identified in the Operational Plan link back to an objective outlined in the Community Strategic Plan. The development of the 2012-2013 draft Operational Plan involved a gap analysis of all council services in preparation for the development of Council's Resourcing Strategy. This process will be conducted over the following six months and will assist with a review of the Community Strategic Plan during 2012-2013.

6.2 Long Term Financial Plan assumptions

Explain the key assumptions underpinning the LTFP and why they are realistic. For example, assumptions will relate to:

- the rate peg (if different from 3%)
- rate of growth in labour costs
- rate of growth in non-labour costs
- cost of service provision in the council's proposed program of expenditure (as per Part A)
- level of cost recovery for provision of services (eg, full or partial cost recovery)
- expenditure growth rate
- major asset disposals/investments/capital commitments
  - population and rate assessment growth rate
  - major borrowings/repayments
  - grants and other revenue.

The LTFP contains a series of assumptions designed to ensure that Council remains financially sound and has the capacity to withstand the impact of unexpected events.

The major assumptions for the first 5 years underpinning the LTFP are shown in the table below:

LTFP FORECASTS AND ASSUMPTIONS

	Projected 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18
FORECASTS - ACCESS ECONOMICS					
CPI (Underlying - Fin Yr)	2.7%	2.7%	2.7%	2.7%	2.7%
CPI (ABS NSW Underlying Cal Yr Ending)	2.7%	2.7%	2.7%	2.7%	2.7%
Average Weekly Ord Time Earnings	3.3%	3.8%	4.4%	5.6%	5.2%
BBSW - 90 Day	3.3%	3.8%	2.7%	2.7%	2.7%
NEW LOANS	5,268,000	0	0	0	0
COUNCIL INCOME - ASSUMPTIONS					
Environmental Levy (special rate renewal)	2,608,000	2,707,000	2,815,000	2,928,000	3,045,000
Infrastructure Levy (Special rate renewal)	2,625,000	2,725,000	2,834,000	2,947,000	3,065,000
Rates					
Rates Pegging Forecast	3.4%	3.1%	3.3%	3.3%	3.4%
+ Rates Growth (enhanced by 0.5% from Rates Restructure)	0.7%	0.7%	0.7%	0.7%	0.7%
Total Rates Change	4.1%	3.8%	4.0%	4.0%	4.1%
Domestic Waste Price Increase	10.0%	10.0%	10.0%	10.0%	3.0%
Pensioner Rebate Growth	1.7%	1.7%	1.7%	1.7%	1.6%
Stormwater Management Charge (rates growth only)	0.7%	0.7%	0.7%	0.7%	0.7%
User Fees & Charges (average 80% of rates change - except statutory rates)	2.7%	2.7%	2.7%	2.7%	2.7%
Trade Waste - Annual Charges (DWM increase rate)	10.0%	10.0%	10.0%	10.0%	3.0%
Interest Income - Rate (BBSW)	5.0%	4.5%	5.1%	6.3%	5.9%
Interest On Overdue Rates (= Rates Growth)	4.1%	3.8%	4.0%	4.0%	4.1%
Recurrent Grants (CPI)	2.7%	2.7%	2.7%	2.7%	2.7%
Capital Grants (CPI)	2.7%	2.7%	2.7%	2.7%	2.7%
Assets Sales					
B2 Land	11,267,500	0			
West Pymble Aquatic Centre	1,907,200	0			
To fund new works in 2010 Contributions Plan (specific assets not defined	0	2,284,000	3,585,000	6,245,000	6,525,000
Services Relocation Project	0	12,311,200	15,720,200		
Total Asset Sales	13,174,700	14,595,200	19,305,200	6,245,000	6,525,000
COUNCIL EXPENDITURE - ASSUMPTIONS					
Labour Costs (Award to 2013/14 then 1.4% < Avg Weekly Earnin	3.25%	2.90%	2.90%	2.90%	2.90%
Super - new scheme compulsory increase phased in. [Old Scheme employees at set rates]	9.25%	9.50%	10.00%	10.50%	11.00%
Operating Expenses (CPI -unless special forecast applies)	2.7%	2.7%	2.7%	2.7%	2.7%
Materials & Contracts & Project Costs (ABS Infrastructure index forecast)	4.1%	4.7%	4.8%	4.6%	4.5%
Loan Rate (200 bps over 90 BBSW)	5.30%	5.80%	6.40%	7.60%	7.20%

Major forecasts affecting Council's significant revenue and cost items are based on forecasts supplied by Access Economics. Council estimates specialised forecast for movements in some specific cost and revenue items in the following ways:

(a) Known future changes e.g. determinations by IPART, agreements with contractors for specific works or services or policy relating to user fees and rebates to special community groups for particular services, Labour Award increases.

(b) Relationships between historic price movements and Access Economics forecasts e.g. forecasts of labour cost increase beyond the period of negotiated Award increase relate the historic trend in Council labour costs to movements in Average Weekly Ordinary Time earnings.

(c) Use of Access Economics forecasts only

7 Criterion 5: Productivity improvements and cost containment strategies

In this section, provide details of any productivity improvements and cost containment strategies that the council has undertaken in the last 2 years (or longer), before considering an increase in rates.

Also provide details of plans for productivity improvements and cost containment strategies during the period of the special variation. These proposed initiatives, which may be capital or recurrent, must be to reduce costs.

Where possible, all productivity improvements and savings (including forward plans) should be quantified in dollar terms. The council may also wish to identify its current and/or projected financial position without the (savings) initiatives.

Productivity improvements should include consideration of:

- levels of service provision (eg, utilisation rates of community halls and number of service enquiries per FTE)
- measures of input (eg, FTE levels, contracting costs)
- reviews of organisational structures or service delivery.

Identify how and where the proposed initiatives have been factored into the council's resourcing strategy (eg, LTFP and AMP).

As additional supportive information, the council may wish to provide evidence of improvements in its performance on key indicators that measure productivity or efficiency. This information is not essential for this criterion to be met. However, we will be reviewing the council's labour costs against the DLG Group average, to help assess the council's costs.

Council for about 10 years has developed a strict control of operational expenditure with a focus to provide funding for capital improvement works. This requires the various departments to manage recurrent expenditure within the annual budgetary framework by ensuring costs are controlled within the rate capping amounts. This has been difficult to achieve due to external constraints such as increased costs for services outside Council's control such as street lighting charges and rural fire service levies. Council has *had to manage these significant increases of over $1 million through organisational efficiencies without impacting on the capital expenditure budget.*

With the introduction of water recycling treatments such a sewer mining plants at both Gordon and North Turramurra Golf courses and stormwater harvesting devices at a number of sports fields, this has resulted in savings of approximately 40% of potable water usage. Likewise, Council has introduced a number of energy efficiencies such a solar power and improved lighting at its major building sites. This has resulted in a decrease of 5% in the total of kilowatt hours. The reports on these savings are included in the attached documents.

Council has also changed the majority of its fleet over time from 6 cylinder vehicles to 4 cylinder vehicles using diesel fuel to help reduce fuel costs.

Services such as tree works, street cleaning and grass mowing have been contracted out due to their seasonal nature and this has saved Council approximately $350,000 per annum. A copy a memorandum relating to the contracting of tree works is attached to the application. Also, a report on the street cleaning contract is attached.

A contract was also called for the installation of bus shelters throughout the Council area and this resulted in a $315,000 revenue stream for Council over a 15 year contract period.

8 Other information

8.1 Previous Instruments of Approval for expiring special variations

If your council has an existing special variation which is due to expire in the proposed special variation period, we request that you attach a copy of the Instrument of Approval for this variation, which has been signed by the Minister or IPART Chairman.

8.2 Reporting

Provide details of the mechanisms that the council will put in place to transparently report to the community on the special variation (being applied for).

Indicate how the council proposes to report this information to the community and what performance measures it will be putting in place to measure the success of the projects or activities funded from the variation.

As specified in the Guidelines, reporting information should clearly identify:

- the additional income obtained through the variation
- the productivity offsets outlined through the variation
- the projects or activities funded from the variation
- details of any changes to the projects or activities funded from the variation compared with the council's initial proposal (noting such changes must be consistent with the terms of the Instrument of Approval)
- the outcomes achieved as a result of the projects or activities.

As stated earlier in this application Council is currently revising all its IP & R documents as required by the DLG. Council has adopted a Community Engagement Strategy, which underpins the revision of the CSP, and the development of a 4 year term Delivery Program and annual Operational Plan. As part of the development of the DP & OP, KPIs are established to monitor progress on the performance of the organisation against community and financial objectives. The draft DP & OP is placed on public exhibition along with Council's Capital Works program, which provides information on the cost, location, type and year of delivery for our projects/program works. The DP & OP also provide current financial information on the LFTP, Recurrent Budget and Fees & Charges.

A key element of the DP & OP is to advise the community on Council's Revenue Policy[5] *which provides information on the rates levied across the LGA.*

Once the DP & OP are adopted, internal reporting on the progress of the DP & OP is conducted quarterly, and reported externally to the community bi-annually. More importantly, monitoring and reporting quarterly on the progress of the DP & OP, the status of projects, and any financial or delivery implications are conducted through a corporate system, and signed off by Directors, the General Manager and the Councillors. Every

[5] Delivery Program and Operational Plan 2012 – 2013 – pages 81-82

action contained in the DP & OP is translated into staff work plans, which are developed annually and assessed every six (6) months.

We acknowledge the importance of good governance in an environment where a quadruple bottom line (QBL) approach is essential. The QBL approach facilitates delivery of high-quality services to residents who increasingly wish to engage in their role as citizens as well as Council's customers. The focus on good governance means we have a strong commitment to engaging its community in order to shape decisions and gather feedback on services, projects and planning.

Our consultation policy guides its work and ensures that all consultation is equitable and accessible. As such, it engages the community in a range of ways, including through:

- *increased communication and reporting*
- *e-registers, including online forums such as web surveys and polls*
- *community meetings, forums and information sessions*
- *reference committees that bring together local resident experts, academic and professional representatives*
- *summits and other "roundtable" opportunities.*

8.3 Council resolution

Attach a copy of the council's resolution to apply to IPART for the special variation.

Note that IPART's assessment of the application cannot commence without a copy of this resolution.

The following documents are included as attachments to this application.

1. **Adopted Community Strategic Plan 2030** *http://www.kmc.nsw.gov.au/files/710ccec3-99e1-48bd-b49d-a15000e13ef0/Community_Strategic_Plan_2030_Final.pdf*

2. **Adopted Delivery Program and Operational Plan** *http://www.kmc.nsw.gov.au/files/45a3f6f8-b6f0-492d-89e4-a15000e626dc/Delivery_Program_and_Operational_Plan_2012_-_2013.pdf*

3. **Adopted Long Term Financial Plan** *http://www.kmc.nsw.gov.au/files/2e650b3b-55e6-4da5-b50b-a15e010cf7cc/Long_Term_Financial_Plan.pdf*

4. **Adopted Workforce Plan 2009** *http://www.kmc.nsw.gov.au/files/931f0179-7234-4da5-9d70-a1730106cd60/Workforce_Plan_2009.pdf*

5. **Adopted Asset Management Improvement Strategy** *http://www.kmc.nsw.gov.au/files/348f3d71-23f7-4a6e-b2ff-a15000e04c6a/Asset_Management_Improvement_Strategy.pdf*

6. **Adopted Asset Management Policy** *http://www.kmc.nsw.gov.au/files/9ba61f06-60f7-4131-ab28-a15000e056fb/Asset_Management_Policy.pdf*

7. **Adopted Asset Management Plan for Roads** *http://www.kmc.nsw.gov.au/files/545a4c9a-3577-426c-8e78-a17700f40bce/Asset_Management_Plan_-_Roads.pdf*

8. **Fair Valuation asset data for all asset classes**

9. **Community Consultation Policy** *http://www.kmc.nsw.gov.au/files/585a04d7-9693-41f3-a9b4-a15000e12c19/Community_Consultation_Policy_Revised_June_2008.pdf*

10. **Community Consultation on Closing the Gap**

11. **Survey results and consultation for extension of Roads Levy**

12. **Report on the Review of the Community Strategic Plan and Community Engagement Strategy** *http://datracking.kmc.nsw.gov.au/infocouncil.web/Open/2012/12/OMC_04122012_AGN_AT_WEB.HTM - Item 8*

***13.* Council resolution to apply for the levy**
http://datracking.kmc.nsw.gov.au/infocouncil.web/Open/2012/07/OMC_24072012_MIN_WEB.HTM

14. List of road works to be funded by the levy for 5 years

15. TCorp Financial Assessment Report

16. Previous approval instrument Infrastructure Levy

17. Adopted Hardship Policy

18. Productivity savings supported information

9 Checklist of application contents

Item	Included?
Community Engagement Strategy, Community Strategic Plan, Delivery Program & Draft Operational Plan extracts	☐
Long Term Financial Plan extracts	☐
Asset Management Plan extracts	☐
Contributions Plan documents (if applicable)	☐
Community feedback (including surveys and results if applicable)	☐
Hardship Policy (if applicable)	☐
Productivity/cost containment examples	☐
Past Instruments of Approval (if applicable)	☐
Reporting mechanisms	☐
Resolution to apply for the special variation	☐

It is the responsibility of the council to provide all relevant information as part of this application.

10 Certification by the General Manager and the Responsible Accounting Officer

I certify that to the best of my knowledge the information provided in this application is correct and complete.

General Manager (name): John McKee

Signature Date: 4th March 2013

Responsible Accounting Officer (name): Angela Apostol

Signature Date: 4th March 2013

Once signed, this certification must be scanned and submitted with the council's application.