

Special Variation Application Form – Part B

Shoalhaven City Council

Date Submitted to IPART:

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Mr James Cox PSM, Chief Executive Officer and Full 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 IP&R documents and relevant annual reviews of plans?

Yes ☐ 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).

Box 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.

Reply

Council is still in the process of completing its updated Community Strategic Plan following the election of a new Council in September 2012. It is envisaged that the new CSP will be adopted by Council by mid May 2013.

Prior to the new CSP being adopted, Council's Resourcing Strategy had identified as one of the scenarios in the Long Term Financial Plan (LTFP) the option of increasing rates above the rate-pegging limit in 2013/14 by an amount of 11%.

Special Schedule 7 of Council's Annual Financial Statements has detailed for some considerable years the "infrastructure gap", and an estimate of the amount of funding require to bring Council's infrastructure assets to a satisfactory standard. Special Schedule 7 indicates that as at 30th June 2013, Council would be required to spend \$37.2 million to bring its infrastructure assets to a satisfactory standard, and an additional \$5.334 million per annum in annual maintenance to keep them at a satisfactory standard.

Council's draft Community Strategic Plan has as a strong emphasis on the renewal of assets as demonstrated by the four new strategies under the 'Sustainable Services and Programs' key result area.

- Prioritise asset maintenance and renewal recurrent program expenditure to address roads, pedestrian and cycle paths and renewal backlog works as the priority asset management tasks
- Increase the resourcing of asset maintenance and renewal programs through the allocation of recurrent and capital resources.
- Review Asset Management Plans having particular regard to the levels of service required from infrastructure and assets, guided primarily by the Community Strategic Plan and community engagement responses.
- Engage the community on the dedication of increased revenues to priority assets and infrastructure maintenance and renewal programs

The financial modelling in Council's Asset Management Plan – Transport Infrastructure (Sealed Roads) – copy annexed, suggests that the backlog of road pavement renewals would be eliminated in about 2028. Revenue from the intended rate rise would bring forward expenditure on road pavement renewals so that the backlog is eliminated by 2024, after which time funding should satisfy the long-term renewal demand for an expanded network.

The AMP – Footpaths and Cycleways (copy annexed) shows that about 3500m² of the path network has 'failed'. The renewal cost for this area is about \$1 million, while the current annual allocation for path replacement is only about \$150K. The AMP also identifies paths valued over \$40 million to meet future growth and community expectations.

Special Schedule 7 of the 2012 Annual Financial Statement highlighted a backlog of works, to bring roads-related infrastructure up to a 'satisfactory' condition, of about \$25 million.

Council's Resourcing Strategy states that one of the key challenges in meeting Council's resource requirements is "to address the current infrastructure backlog

and fully funding the planned/required renewal of existing infrastructure, together with appropriate new infrastructure commitments.” The Resourcing Strategy also states that the highest priority for expenditure, from planned recurrent revenue, is on capital renewal to address asset backlogs.

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 ☒

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

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.

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.
-

Reply

As previously mentioned, Council has not adopted its new Community Strategic Plan, and won't do that until mid May 2013. The Special Variation has been requested due to the community identifying the need to improve the standard of roads in the City as part of the consultation carried out on the update of the CSP.

Information received from the community is provided in a separate document titled Infrastructure Survey (copy annexed). This survey was done as part of the Community Strategic Plan to attempt to ascertain what the community felt about the condition of the infrastructure assets operated by Council, and which assets were most in need of attention. Council would have appreciated a greater number of the community responding to this survey (a total of just over 200 responses were received), however it is felt that the survey results were fairly indicative of the opinion of the wider community, in that roads & paths are the greatest priorities for improvement.

A survey conducted in 2009 by IRIS Research as part of Council's initial Community Strategic Plan preparation (copy of parts annexed), identified that 22.9% of respondents when asked the unprompted question "If you could have one thing, what would you like to see Council provide in the next five years" identified "road development/improved roads as their response. (a copy of this part of the survey is provided as an attachment.

The new Council that was elected in September 2013 has made a determination to pursue an increase in revenue to be totally allocated to roads & paths in 2013/14, and totally allocated to renewal of infrastructure assets in subsequent years. The previous Council, were not prepared to pursue increases in revenue from a Special Variation, and therefore the Operational Plan & Delivery Programmes produced by this Council did not mention this as a strategy.

3.3 Financial 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.

Reply

Council's Resourcing Strategy (the latest version of which was adopted by Council on 28th June 2012) – copy annexed - details on Page 44, different scenarios that would accrue if Council chose to continue its current financial strategies across the next 10 years. Scenario 1 shows deficits accruing due to Council's expenditure outstripping its revenue across the next 10 years. Scenario 2 shows even greater deficits accruing if Council were to construct all projects it has identified in its Section 94 Developers Contributions Plan over the next 10 years. Scenario 3 identifies the changes to Council's cash balances if a "once off" permanent increase of rates amounting to 11% was introduced in 2013/14.

Council received an independent 'Financial Assessment and Benchmarking Report' from NSW Treasury Corp (copy annexed) in October 2012 as part of an application Council made in 2012 for an Interest Subsidy as part of the Local Infrastructure Renewal Scheme. This report found that Council had the financial capacity to service a \$2 million loan for additional roadwork, but also observed on Page 5 of the report that

"However, the Unrestricted Current Ratio, and cash and investment levels drop to very low levels in the medium term which will become a solvency issue. Reductions in spending or increases in revenue sources need to be sought immediately.

Council's need to invest further resources into renewing its infrastructure assets has been reflected in Special Schedule 7 of its Annual Financial Statements for many years.

3.3.1 Prioritization of proposed spending

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.

Reply

Council has resolved to spend the additional revenue generated from the Special Variation (estimated to be \$2.3 million in 2013/14) as follows:

Currarong Road (5.6km to 6.8km from Coonemia Road) - \$624,000

- **Jindy Andy Lane (0.0km to 0.7km from Comerong Is Road) - \$364,000**
- **Quinns Lane (0.4km to 0.8km from Princes Highway) - \$512,000**
- **Lake Conjola Entrance Road (within tourist park) - \$200,000**
- **Orient Point Roadworks - \$100,000**

Path projects at:

- **Woollamia Road (community) path - \$200,000**
- **Princes Highway (south of Canberra Cres) path - \$90,000 in lieu of using Roads to Recovery funding (Refer to Minute13.25)**
- **Berry Street Nowra path – replace old concrete and asphalt sections between Emporium Lane and Worrigea Street - \$210,000**

Subsequent road renewal and path projects would be implemented from prioritised strategies for these asset types.

3.3.2 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.

Reply

Council has examined increasing its borrowing as part of the 2013/14 Budget to fund increases in its capital works programme. It is estimated that by 30th June 2013, Council's General Fund will have liabilities amounting to approximately \$35.7 million. Future borrowings (as indicated on page 21 of Council's Resourcing Strategy) will see Council's Debt Service Ratio remain at manageable levels over

the next 10 years. Council is projecting that it will borrow funds in future years to accelerate its spending on its infrastructure assets – especially roads.

Council is currently embarking on a large scale organisational restructure which has as a target, reductions in operating expenditure amounting to 5% of its operating budget. A combination of increased revenue from this Special Variation, reduced operating expenditure in regard to staffing, changes in delivery methods and targeted reductions in services provided will result in Council becoming financially sustainable in the medium to longer term.

3.3.3 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.

Reply

Given that the Special Variation produces an additional \$2.3 million per annum (growing in future years) which is planned to be totally allocated to renewal of infrastructure assets, it is not envisaged that a lot of the key financial indicators will change significantly over the next 10 years (apart from the Asset Renewal Ratio)

A separate spreadsheet detailing the projected ratios is annexed.

The improvement of the Asset Renewal Ratio is expected, given that the whole amount of the Special Variation is being expended on Asset Renewal projects.

There is an improvement to the Operating Balance Ratio as the additional Operating Revenue improves this measure. There are no other significant changes to any of the ratios given the nature of the Variation.

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 LTFF 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.

Box 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.

Reply

Council has attempted through both its consultation on its Community Strategic Plan, and specific consultation on its Special Variation to make the community aware of why it is applying for a Special Variation, what the effect will be, and where Council is intending to spend the additional revenue.

Council produced a Discussion Paper (copy annexed) which was prominently displayed on Council's website, made available in hard copy at Council's Administrative Centres (2), Libraries (4) & Aquatic Centres (4) throughout the city. Copies of the Discussion paper were directly sent to Council's 23 Community Consultative Bodies for comment.

A meeting was held with the Executives of all CCB's on Friday 22nd February 2013 (attendance of 30 CCB executive members) to brief the bodies on the issue of the Special Variation, and to provide further information on why Council is pursuing it and where the additional revenue will be allocated.

Council chose not to hold specific community meetings on this issue as this method of consultation has not been very successful in previous years. Each year (during the month of May) Council holds 3 public meetings to provide information on its Delivery Programme & Operational Plan. These meetings are generally attended by between 5 & 25 people, and are unfortunately not seen as being successful in making the community aware of what Council is intending to do each year.

Council engaged the media extensively with releases which were "picked up" by the local newspapers and the local radio station. There were a good deal of stories and debate in regard to the issue over the past 3 months, and it is felt that this method of information dissemination has been more successful in making the community aware of the issue than the traditional approach of public meetings.

A report was submitted to an Extraordinary meeting of Council on Thursday 7th March 2013 detailing the submission received by the community on the issue of a Special Variation. A copy of the report and attachments is provided on the portal. This report (and attachments) is also available on Council's website for the community to view.

As previously mentioned, the community were engaged with specific questions via a survey on their attitude to an increase in rates, and what things they would be prepared to pay an increase in rates to achieve.

Council will be producing its Delivery Programme & Operational Plan with 2 options in its revenue Policy – one with the Special Variation & one without. A specific works programme will also be part of the DP/OP which will detail the additional works to be carried out if the application is successful – these works will not be carried out if the application does not proceed.

Council will be exhibiting its Delivery Programme & Operational Plan during the month of May 2013 to once again engage the community on the issue of renewal of infrastructure as a main platform. As well as providing extensive coverage in the local media, Council will once again hold 3 public meetings to provide a forum for the community to gain information on how Council is intending to raise its revenue, and what priorities it is giving to spending these funds. A further report on the results of this consultation will be provided to Council prior to it adopting the DP/OP for the 2013/14 financial year.

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.

Reply

The outcomes of the community consultation on the Special Variation are as produced in the report to the Extraordinary meeting of Council held Thursday 7th March 2013.

In summary, there were 50 separate responses – broadly there were 34 submissions against (68%) and 16 submissions for (32%)

The submissions against the Special Variation application were mostly on the issues of affordability and the need for Council to improve the way in which it currently delivers its works programmes. These submissions indicated that parts of the City population are “doing it tough” through increases in the cost of living, and a further impost through a larger than normal rate increase would make it even more difficult “to make ends meet”. The comments in regard to Council’s present expenditure of ratepayer funds were suggesting that other more efficient ways of delivery should be investigated to save money, and this should be done before ratepayers are asked to pay higher rates.

The submissions for the Special Variation application in the main agreed that more funding needed to be allocated to infrastructure assets if they were to be improved. Some indicated that roads was a greater priority than cycleways or pathways. Some indicated that it was important to address the problems on a city wide basis ensuring that all parts of the city benefited from the increased expenditure.

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.

Reply

It is proposed that Council rating structure will not change from the structure that currently exists – the Special Variation increase of 8% will be paid by all categories of ratepayers throughout the city through an increase in the rate yield expected to be gained from each category of rates charged. Details of the rating structure can be found in Part A of this application.

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.

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

Reply

It is currently proposed that the Special Variation increase of 8% would be apportioned equally across all rating categories, therefore every ratepayer in the city would be impacted similarly (depending on the valuation of the property they own)

The average annual increase in residential rates is estimated to be \$70 per annum. Of this amount, approximately \$30 is the rate-pegging increase and \$40 is the Special Variation.

It is arguable, that a \$70 per annum increase in rates is unmanageable when compared to increases in other accounts paid in a household. It is noted that electricity accounts have risen by between \$208 & 427 per annum (Source Final IPART report into 2013/13 electricity prices, Greenslip Insurance has risen by nearly \$50 per annum for each vehicle owned, Private Health Insurance premiums have risen on average by 5.6% (Source: Dept of Health & Ageing). To think that Local Government is not facing similar cost pressures to these other organisations is unrealistic. An additional amount of \$70 per annum while not ideal, is not considered an unrealistic amount of rate increase to achieve an increased level of funding being allocated to a class of asses that is in dire need of greater funding.

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.

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.

Reply

It is extremely difficult to quantify the ratepayers "capacity to pay" as Council does not have access to the individual financial circumstances of its ratepayers.

An analysis has been undertaken on the rate coverage ratio of Shoalhaven City Council compared to other surrounding Councils' and other Council's in the same Group used for comparative purposes by the Division of Local Government.

Group 5 Councils	Rates Coverage Ratio	Average Rate
Wollongong	51%	\$1,011.85
Lake Macquarie	50%	\$ 879.17
Tweed	47%	\$1,022.38
Newcastle	46%	\$ 874.64
Coffs Harbour	40%	\$ 785.05
Shoalhaven	34%	\$ 759.86
Other surrounding Councils		
Wingecarribee	52%	\$ 927.62
Shellharbour	40%	\$ 921.32
Eurobodalla	40%	\$ 688.94
Kiama	31%	\$1,174.80

The inability of the ratepayer to pay an increased amount of rates was a theme that was present in the submissions received against the Special Variation. The general theme that the average ratepayer was "doing it tough", and couldn't afford an increase in rates was present in a lot of the submissions against the Special Variation. Council is very aware of this issue, and concerned given the low socio-economic nature of the Shoalhaven City Council area. According to ABS Census 2011 figures, the median weekly family income in the Shoalhaven was \$984 compared to \$1,477 in NSW. It is however also important to note that average rates in the Shoalhaven are less than other surrounding & comparative areas.

It is also important to note that 34% (or 18,407) of the 55,323 rateable properties in the Shoalhaven are owned by ratepayers who live outside the city. This would suggest that a third of the property owners either own investment properties or holiday homes in the city. A further 11,600 assessments (or 21%) of the property owners are claiming the pensioner rebate. It should be noted that Council's Pensioner Policy for rates assists these ratepayers when it comes to affordability of rates.

On this basis, over 50% of the ratepayers in the city either own a second property (and could realistically be classed as property owners with means to pay slightly higher rates) or are pensioners who have the ability to defer their rates payment under Council's existing policy.

5.4 Addressing hardship

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

If Yes, is the Policy identified in the council's IP&R documentation? Yes ☐ No ☒

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 ☐ No ☒

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

Reply

Council has both a Hardship Policy & a specific Pensioner Rates Policy to deal with ratepayers who are having difficulty in paying their rates. The Pensioner Rates Policy adopted by Council provides for no Debt Recovery action being taken against pensioners who are unable to pay their rates by the due date. This policy allows pensioners to accumulate their outstanding rates as a debt against the property.

Council's Hardship Policy provides for ratepayers suffering financial hardship to receive an extended interest free period in which to pay off their outstanding 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.

Community priorities

- Council recently conducted an Infrastructure Survey. There were significant concerns about the existing condition of the road and path networks and support for their upgrading.
- Some of the key findings from the survey include:
 - 94% of respondents stated that 'Roads' were either 'critical' or 'important'

- 70% of respondents stated that 'Paths' were either 'critical' or 'important'
- 77% of respondents stated that 'Roads' were their No 1 priority for maintenance and replacement
- 5% of respondents stated that 'Paths' were their No 1 priority for maintenance and replacement
- 76% of respondents stated that the quality/service provided by 'Roads' was either 'terrible' or 'could improve'
- 66% of respondents stated that the quality/service provided by 'Paths' was either 'terrible' or 'could improve'
- 45% of respondents either 'strongly agreed' or 'agreed' that rates should be increased to improve the condition of 'Roads'
- 61% of respondents either 'strongly agreed' or 'agreed' that rates should be increased to improve the condition of 'Paths'

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.

Reply

The key assumptions made in Council's LTFP are as detailed on pages 19 & 20 of Council's Resourcing Strategy (which is attached):

The rate pegging limit is assumed to be 3% in each of the 10 years

The rate of growth in labour is assumed to be 3.25% per annum

Other costs are generally 3%, however electricity prices are projected to rise by higher percentages

See the Resourcing Strategy for details.

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, LTTP 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.

Reply

Council has identified as part of its Annual Report for the past 3 years Productivity Gains & Cost Savings. Rather than provide all of these Annual Reports as Annexures, they are available for download from Council's website.

Council has set itself targets for savings in operational expenditure for the past 2 years at \$200,000 per annum, rising to \$660,000 per annum in 2013/14 then to \$1 million per annum from 2014/15. The newly elected Council has recently increased the operational savings target further to 5% of operational expenditure (less depreciation), which would amount to a target of \$6.5 million.

To achieve this target, Council has begun an organisational structure review where the structure of the organisation is being changed. Previously, the Council structure had a General Manager, 6 Directors & 28 Section Heads. The new

structure will have a General Manager, 4 Directors and 18 Section Heads. This reduction in Senior & Middle Management positions is projected to save millions in salary costs. Further examination of delivery methods (contract vs day labour) and targeted reductions in service levels are expected to save further operating costs to bring Council's projected deficits in future years (as projected in the LTFP) back into a balanced state.

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.

Reply

Council is expecting to receive an additional \$2.3 million from the Special Variation in 2013/14. This additional revenue is to be allocated to a specific Works Programme in the Operational Plan. At each Budget Review, progress toward the execution of this Works Programme will be reported to Council and the community.

As part of the Budget Review, operational savings targets will be reported on, to measure progress toward the meeting of these targets.

Council's Annual Report will have a section allocated toward the Special Variation and the specific outcomes achieved through the introduction of this increased revenue.

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.

Reply

Council at its Extraordinary meeting held Thursday 7th March 2013 resolved:

That Council proceed with an application under Section 508 (2) of the Local Government Act 1993 to the Independent pricing and Regulatory Tribunal (IPART) to increase rates by a total amount of 8% in 2013/14.

This resolution can be found on Council's website under Council Minutes.

9 Checklist of application contents

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

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): Russ Pigg

Signature Date: 11th March 2013

Responsible Accounting Officer (name): Peter Dun

Signature Date: 11th March 2013

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