Wyong Shire Council
CENTRAL COAST

F2012/00884

11 March 2013

The Local Government Team
Independent Pricing and Regulatory Tribunal of New south Wales
PO Box Q290
QVB Post Office NSW 1230

Dear Local Government Team

Wyong Shire Council Application to IPART for Special Rate Variation of 6.9% for 7 years

Please find enclosed Wyong Shire Council's application for a Special Rate Variation – S508A for a 6.9% special rate variation per year for seven years. Council resolved at its meeting on 27 February 2013 to apply for this Special Rate Variation increase in order to address the $130 million funding shortfall in Wyong Shire's General Fund asset base.

Council's decision to proceed with the 6.9% Special Rate Variation application per year for 7 years followed an extensive community engagement process, involving three distinctive communication and consultation stages undertaken over 12 months as part of our strategic planning process for 2013 – 2017. The Community has indicated strong support for improving the standard of core Council assets such as roads, drains and parks.

Council has undertaken significant recurrent cost reductions by changing its service delivery in many of its 170 services, thus minimising the amount of the special rate variation.

The 6.9% Special Rate Variation means on average an extra $30.39 per annum for a rate payer in year one, rising to an extra $312.55 per annum in year seven.

Council has taken the decision to submit an application to increase the rates by 6.9% per year for seven years based on sound asset management information and extensive community consultation will ensure the extra money raised goes into improving the assets that the community have requested we spend it on. The extra $ 30.39 per annum in year one and $312.55 in year seven for the average ratepayer is negligible in the context of asset failure or the average annual salary for Wyong Shire residents of $48,568.00 (ABS 2011).

Wyong Shire Council
CENTRAL COAST

I look forward to your support in ensuring Wyong Shire's assets are maintained to a satisfactory standard.

The Executive Summary and the information within the application provide more detail on this issue. Should you require any further information regarding this application, please contact the Project Manager, Darryl Rayner on 02 43505470 or raynerd@wyong.nsw.gov.au.

Yours sincerely

Michael Whittaker
General Manager

11 March 2013

Executive Summary

The following information is provided to explain the context of Council's application.

Overview

Wyong Shire Council (WSC) is a large regional council on the NSW Central Coast, with a population of 153,992 (ABS, 2011), making it the 16th largest local government area in NSW, with an annual growth rate of 1.1%. It is a Group 7 council for the Division of Local Government's (DLG) comparative data analysis.

In the past fifty years, the character of the area has undergone a dramatic shift from being primarily a rural locality and tourism destination to a popular choice for internal NSW migration, particularly for ex-Sydney families and retirees who appreciate the natural assets of beaches, lakes, and national parks; the proximity to Sydney and Newcastle; and the large and growing choice of modern, affordable low and medium density housing.

Due to a number of causal factors, some common across all NSW local councils, and some unique to Wyong Shire, Wyong Shire Council has experienced eight successive years of operating deficits, peaking at $30m in 2010. In addition, Wyong Shire Council has historically under-invested in asset renewals, causing a material gap between current asset conditions and a condition of satisfactory. This gap has been quantified as $130m for General Fund assets alone and causes significant issues and risks for public safety and amenity.

Wyong Shire Council has aggressively attacked the operating deficit and is forecast to break even by 2015. When complete we will have improved our annual recurring operating performance by $30m. This has involved a number of strategies including restructures, cost reductions, service modifications and productivity improvements. Staff numbers have been reduced by 100 full time equivalent staff (8.7%).

However, having examined all options for further immediate improvement, and having put in place some long term strategies for financial sustainability, there is simply not the capacity to generate the levels of cash required to fund the asset backlog and bring assets to a satisfactory condition.

We have consulted the community extensively over the past 12 months in relation to service standards and around a special rate variation to increase rates by more than the capped rate increase. The community consistently showed strong support for improving the standard of our core assets and recognised the need to close the asset gap. The community also consistently showed a willingness to pay a modest increase to close this gap and secure these assets for the future as the community continues to grow.

.

Council has listened to the community and moved from the original increases of 12.5% and 9.5% rate options to apply for a 6.9% special rate increase variation. This is seen as affordable to the community, and the most appropriate approach to addressing asset safety and amenity issues, while compelling Council and staff to search for further productivity savings.

The reality is that doing nothing is not an option. The 6.9% option is reasonable in terms of cost to the ratepayers and the benefits that will be delivered. It means on average a $30 increase per ratepayer in year one and a $312 increase in year seven. Further, if nothing is done it can and will raise serious public health and safety risks as our assets continue to deteriorate.

Our journey to Financial Sustainability

The key contributors to Council experiencing the eight successive years of operating deficits, peaking at $30m in 2010 have been driven by a number of factors:

Rate pegging - 35 years of rate pegging, has artificially restricted a high proportion of Council's revenue from generating the income require to cover rapidly increasing operating costs. Rate peg increases have not kept pace with increases in our cost base, for example, the impact on our core business activities of large increases in the cost of raw materials and energy, growth in labour costs and the 'cost shifting' of responsibilities for services and assets from other levels of government without adequate compensation.

- Asset management capacity - a general lack of capacity and performance in the area of asset management, which did not see local government as a sector move towards the whole-of-life costing of assets until the introduction of Integrated Planning & Reporting. Historically this meant assets were undervalued and underfunded, with many councils now confronting an unexpectedly large burden to source the funding required to address old and deteriorating asset portfolios.

- Geographic/Environmental – Wyong Shire is a very large and challenging geographical area that includes major bodies of water that have a significant impact on infrastructure planning and costs per capita. In particular, there are large areas of flood-constrained low lying areas around the lakes which impact many Council assets via the need for expensive construction and renewal programs to mitigate flood inundation, the need for urgent rehabilitation of a major lake system, a vast stretch of coastline impacted by erosion and storm surges, and significant tracts of bushland requiring fire hazard protection.

Since 2010, we have worked hard to improve our financial performance via multiple reform initiatives reducing our recurring operating deficits from a high of $30m in 2009/10 to an anticipated $10m in 2012/13, and $4.8m in 2013/14. Our Long Term Financial Plan now confidently forecasts a nil deficit by June 2015, providing an ongoing annual improvement in operating performance of $30m over 2010 results.

However, even when our operating deficit is eliminated, there remains insufficient income generated from our operations to address additional and significant financial challenges:

- Asset Backlog - to implement our Asset Management Strategy we need to find $130m to fund a program of capital works which would bring the standard of our assets up to a satisfactory condition. Asset conditions have a direct and material impact on the levels of service, amenity and safety for our community and represent a legal liability risk for Councillors and staff.

- Other - Expected new costs relating to demand for new assets arising from population growth and increased environmental management costs arising from flood mitigation, estuary management and emergencies.

We are also aware that if we were to attempt to fund the works program identified to address our asset gap without increasing our revenue, we would exhaust our cash reserves. This view was recently validated by a recent NSW Treasury Corporation (T-Corp) review of our financial situation which noted that our capacity to borrow was limited and represented a:

"serious liquidity issue which Council needs to consider, develop options and remodel."

Successive Long Term Financial Plans have identified and considered these challenges, along with constraints to our ability to fund them by alternative means such as borrowing, leading Council to commence consultation with our community to identify a responsible solution.

Our draft Strategic Plan 2013-2017 is currently on exhibition, with three possible scenarios. The Rate Variation applies to the General Fund only.

- **Scenario 1 – Base Case:** 3.4% in 2013/14 and assumed as 3% for subsequent years, a cumulative increase of 23.47% over seven years.

- **Scenario 2 - 9.5% Special Variation:** An increase of 9.5% per year for seven years resulting in an accumulated increase of 88.76% over the same period.

- **Scenario 3 – 6.9% Special Variation**. An increase of 6.9% per year for seven years resulting in an accumulated increase of 59.53% over the same period. For the average residential ratepayer, this will mean an annual increase above the rate peg of $30.39 in year one, (8cents per day) rising to $312.55 per week in year seven (86 cents per day)

Community Priorities

Since the development of the Community Strategic Plan in 2009, our community have voiced their opinion on what they desire for the place in which they live. The Community want Council to focus on our core assets like Roads, drains and Parks.

Over the past 12 months, we have gone to great lengths to involve our community and ratepayers in understanding the resourcing challenges we currently face and how they arose, and to engage them transparently in developing the most appropriate solution. This has cost Council over $165,000 to date.

The community engagement process has involved three extensive communication and consultation stages over 12 months as part of our strategic planning process for 2013-2017

The community consistently showed strong support for improving the standard of service provided around transport infrastructure, the natural environment and community connectedness. These areas align closely with categories of assets identified in the asset backlog as 'unsatisfactory'. A willingness to pay a modest increase to improve these asset categories was clear.

The community engagement process greatly influenced the development of our Strategic Plan 2013-2017 and the decision to apply for a Special Variation increase, particularly around the final amount applied for – reducing it from 12.5% to 9.5% and finally to 6.9% per year for seven years.

Long Term Financial Plan Scenarios

Assuming our application for a Special Variation of 6.9% is successful, we are mindful that the incremental revenue generated of $78m will not be sufficient to fully address our current asset renewal backlog of $130m over seven years.

For this reason, our capital expenditure plan anticipates $15m be spent on addressing the asset backlog each year over the seven years, achieved via ongoing productivity savings and constraints on expenditure for new assets.

Coupled with a longer time horizon on bringing the remaining $25m asset backlog to satisfactory, Council can expect to remain sustainable while progressively improving services as required by our community.

Failure to address the $130M asset maintenance backlog will mean the asset conditions and related service levels continue to deteriorate and increase the cost burden on future generations. It would also mean an immediate impact on public safety and amenity.

Our Application for a Special Rate Variation of 6.9% per year for 7 years

Having undertaken an extensive community engagement process and formulated our draft strategic plan, Council resolved on 27 February 2013 to apply for a Special Rate Variation increase of 6.9% under Section 580A for a seven year period in order to:

- Continue to provide cost-efficient services that best meet our community's demonstrated needs and expectations, in line with our best understanding of their capacity and willingness to pay.

- Provide us with a substantial proportion of the incremental revenue required ($78m) to address a significant proportion of our asset renewal backlog in a timely and therefore cost-effective manner, conscious that costs increase as conditions deteriorate.

- Enable Council, as an asset owner, to manage our infrastructure portfolio in a way which addresses potential health, safety and public liability risks in line with our asset management systems, policies and long term plans as highlighted in our last three strategic plans.

- Mitigate the short-term impact on individual ratepayers that would have occurred if the same rate increase, in dollar terms, was raised over a shorter timeframe (four years), in line with data about our community's capacity and willingness to pay.

- Minimise the financial impact on individual ratepayers that would have occurred if we were to apply for a higher increase (12.5 or 9.5%), in response to data about our community's capacity and willingness to pay.

- Address the critical challenge of the asset shortfall in the medium term, while continuing to pursue a range of opportunities to improve financial sustainability in the medium to long term - including cost savings and efficiency improvements via shared services, as well as new sources of recurrent income such as the establishment of an investment property portfolio.

Council has undertaken significant cost reductions to its recurrent business operations prior to this application, achieving savings of $20m since 2010 and targeting another $10m over the next 2 years to minimise the impact on the community. Council has considered the community's feedback and capacity to pay in resolving the value for the special variation rate and the necessary works programs needed to address the asset maintenance backlog situation.

The only practical and realistic solution to secure the future of the Wyong Shire assets is to fund these works through a Special Rate Variation of 6.9% for seven years as set out in Council's application.

Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

Wyong Shire Council

Date Submitted to IPART: 11 March 2013

Council Contact Person: Darryl Rayner

Council Contact Phone: 4350 5470

Council Contact Email: Darryl.Rayner@wyong.nsw.gov.au

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

Inquiries regarding this document should be directed to a staff member:

Tony Camenzuli (02) 9113 7706

Heather Dear (02) 9290 8481

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290, QVB Post Office NSW 1230
Level 8, 1 Market Street, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

www.ipart.nsw.gov.au

Contents

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 11March 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 ☐

Council has completed its annual review of plans and adopted a draft version of the Wyong Shire Council Strategic Plan 2013-2017 (WSC SP) for the purpose of public exhibition.

This document is currently on public exhibition which will close on 2 April 2013.

As discussed and agreed with IPART, our report and the resolution of Council will be forwarded with this submission, and any further material changes reported to IPART subsequent to the public exhibition period.

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.

2.1.0 Overview

Wyong Shire Council (WSC) undertakes an annual strategic planning process in line with Division of Local Government (DLG) Integrated Planning & Reporting (IP&R) guidelines. Council has met all DLG requirements since submitting our first strategic plan two years earlier than required as a Group 3 council (for IP&R).

The Draft WSC Strategic Plan (SP) 2013-2017 is Council's master plan governing our activities for the next four years and how we will resource them, and was developed with the feedback from a three-staged process of community engagement and the existing Community Strategic Plan (CSP) (2009). It is currently on public exhibition with the final to be adopted by Council on 10 April 2013.

Two of the four Resourcing Strategies, the Asset Management Strategy (AMS) and Long Term Financial Strategy (LTFS) have been fundamental in identifying the need for a Special Variation (SV):

- Since 2011/12, our AMS has drawn attention to the need to fund a program of capital works to address the gap between the condition our assets should be in and what they currently are – known as the asset backlog and currently estimated at $130m (for General Fund).

- Our LTFS assesses our current and future requirements, and has repeatedly raised the concern that Council does not have the capacity to fund the asset backlog without finding additional revenue. The LTFS was pivotal in urging Council to investigate, via dialogue with our community, the possibility of seeking additional revenue via a Special Variation.

The Community Strategic Plan 2009, while silent on issues of funding, is a key document in our IP&R process and clearly shows the importance of Council's provision of assets and services, particularly those that facilitate transport, community connection and the protection of the natural environment.

2.1.1 Wyong Shire Council's Strategic Planning Process

The Draft WSC SP 2013-2017 is designed to deliver Council's contribution to the community's priority objectives, as adopted in the CSP and reflect the community's preferences on Council service levels and funding options which have been sought via extensive community engagement. The Draft WSC SP 2013-2017 is in *Appendix 2*.

The Draft WSC SP 2013-2017 contains the resourcing strategies necessary to ensure Council has the capacity to deliver its service delivery program and includes the following components as set out in *Figure 1* (demonstrating the relationship between them) and as described in *Table 1*.

Table 2 sets out the process undertaken to develop our WSC SP for 2013-2017.

These components are reviewed during the formation process for alignment and integration with each other and the DLG Guidelines.

Figure 1: Integrated Planning & Reporting components at Wyong

Table 1: Integrated Planning & Reporting components at Wyong

Component	Description
Community Strategic Plan (CSP)	The *CSP* identifies the main priorities and aspirations for Wyong Shire. It has a 20 year horizon but does not go into specifics about Council services or include any reference to a SV. A revised version is currently on public exhibition, *Draft CSP (2013)*
Operational Plan (OP)	The *OP* contains the detailed first year actions from the 4 Year Delivery Program that will be undertaken in 2013/14. It includes detailed capital and operational expenditure budgets.
Four Year Delivery Program (4YDP)	This plan outlines the Principal Activities and capital investment to be undertaken by Council in the coming four years.
Asset Management Strategy (AMS)	Council's approach to managing and accounting for $2.3 billion of assets, including the capability of the asset condition, funding bases, activities and service levels. Supported by an Asset Management Policy, Asset Management Plans and an asset management system.
Long Term Financial Strategy (LTFS)	Incorporates a ten year plan which aims to ensure adequate financial resources are accessible to provide services, maintain assets at a satisfactory condition, provide capacity for unexpected events, and provide essential service levels. This is supported by the Long Term Financial Plan (LTFP).
Information Management	Ensures adequate planning is undertaken for the capture, retention and

Strategy (IMS)	retrieval of data.
Workforce Strategy (WFS)	Ensuring those who deliver services are appropriately skilled and resourced to deliver the actions within the *4YDP*.
Annual Report	Addresses DLG requirements and focuses on tangible outcomes achieved in the preceding financial year.
Quarterly Reports	Performance reports are produced each quarter summarising the achievements, risks and performance against budget. These are reported to Council and available on our website.

Table 2: WSC SP 2013-2017 Key Components and Timeframes

1. **May/June 2012**

   Review of community's long term objectives (as set out in the CSP 2009) undertaken in conjunction with results of major community consultation. WSC Service Standards Review (SSR) commenced. Community identified service priorities.

2. **August 2012**

   Service priorities from first round of community engagement incorporated with asset management information to inform a service level business planning exercise with managers to develop potential future funding options.

3. **October/November 2012**

   Further community engagement on potential funding options associated with SV. Options developed by Deliberative Working Group following Stage 1. Consultation undertaken in accordance with DLG guidelines for SV applications.

4. **December 2012/January 2013**

   Annual review of Council's key long term resourcing strategies - financial, asset management, workforce planning and information management – including integration between all strategies and taking into consideration results of the first two stages of community engagement.

5. **January/February 2013**

   A third round of community consultation undertaken to provide further detailed information to the community.

6. **January - March 2013**

   Development of various internal drafts of 4YDP and OP, formulated by considering the community's input, resourcing needs, statutory obligations and the input of operational service unit managers, then reviewed for alignment with all strategic plan resourcing strategies and community priorities.

7. **13 February 2013**

   Mayoral Minute passed directing staff to provide analysis on the option of a 6.9% SV.

8. **February 2013**

   Intensive workshop with Councillors to consider community input and refine draft plan.

9. **27 February 2013**

   Council resolution to apply to IPART for a SV of 6.9% every year for seven years.

10. **27 February 2013**

    Council adopts Draft WSC SP 2013-2017 for public exhibition.

11. **March 2013**

    Draft WSC SP 2013-2017 on public exhibition (4 March – 2 April 2013).

12. ***11 March 2013**

    SV submission due to IPART at this point*

13. **April 2013**

    Consideration of formal submissions received during public exhibition and revisions applied to draft if required. Notify IPART of any major change.

14. **10 April 2013**

    Adoption of final WSC SP 2013-2017.

15. **15 April 2013**

    Copy of adopted WSC SP 2013-2017 and SV submissions to IPART.

16. **June 2013**

    IPART decision announced.

2.1.2 Identification of the Need for a SV in IP&R

The current IP&R planning methodology was implemented at Wyong in late 2010 when Council was undergoing a period of intense self-review and widespread change, with the following key events significantly influencing Council's strategic outlook:

- The previous two years had seen over 3,500 residents consulted as part of the development of Wyong Shire's first CSP. This process and the resulting plan provided Council with a clear understanding of the community's priorities and long term aspirations at that point in time.

- Changes to the Australian Accounting Standards in 2006 saw asset valuation methodology move from 'historical cost value' to 'replacement cost value'.

- The financial result for 2009/10 was an operating deficit of $30m – the fifth consecutive year of deficit results.

- A new General Manager was appointed in May 2010 with a clear directive to address the issue of financial sustainability.

The introduction of IP&R contributed to more than just an improvement in planning processes, it enabled an important shift in perspective to emphasise the value of longer-term rather than short-term planning horizons as well as increase Council's accountability to, and partnership with, the local community.

In this context, the key planning components which first identified the need for a SV, or significantly contributed to our understanding of that need were:

- Community Strategic Plan (2030) – adopted in 2009

- Asset Management Strategy 2011/12

- Long Term Financial Strategy 2011/12

When each of these plans first identified the need for SV is outlined below.

2.1.3 Community Strategic Plan (2030)

The process of developing Wyong Shire's first long-term CSP commenced in 2008, with the final document adopted by Council in September 2009 (updated in 2011 and currently on public exhibition following a recent review in 2013) alongside the Draft WSC SP 2013-2017.

The process of formulating the CSP included extensive community engagement:
- Over 3,500 residents participated in a series of consultations
- Information sessions and workshops included NSW Government representatives
- Community reference groups reviewed the consultation and workshop data and were given the authority to formulate priority objectives for how the quality of life could best be improved over the following 20 years.

The CSP includes a Community Vision Statement and eight priority objectives which we have referenced and reflected throughout our subsequent strategic plans to ensure clear alignment exists between our activities and the aspirations of our community.

The CSP does not explicitly refer to the need for an SV, but as our assets underpin service delivery to the community, it is this indicative level of service which our current LTFS indicates is not achievable without a SV.

While the plan itself clearly recognises that the responsibility for achieving these objectives involves both the community and governments of every level (and has since been used by a number of State Government agencies to assist in their planning), as it relates to Council it shows that our community places a high value on Council-owned and managed assets providing satisfactory services.

In particular, those assets that facilitate transport, community connection and the protection of the natural environment. It is imperative to recognise assets underpin service delivery and must be fit for their purpose.

While the CSP does not specifically indicate Council's direct role in contributing to the achievement of those aspirations, nor provide any financial rigour to ensure sustainability, it states that the community expects our many essential services to:
- Continue into the future
- Be maintained at a reasonable level
- Not have any negative impact on people's quality of life

In the context of this application, the CSP defines the community's long term vision and their desired level of service, with five of the eight priority objectives strongly supporting our case for a SV to address our asset backlog, as set out in *Table 3*.

Table 3: Alignment of CSP objectives with support for a Special Variation Application

CSP Objective	Support for SV
Vibrant connected communities. Sense of belonging and pride in local neighbourhood	Satisfactory condition of assets across all classes including natural environment.
Ease of travel within Shire. Travel will be available at all hours and be safe, clean and affordable	Sufficient transport infrastructure (safe, clean and affordable) including roads, bridges, footpaths and cycleways to facilitate ease of movement.
Access to a diverse range of affordable and coordinated facilities, programs and services	Suitable community facility assets including recreation centres and community halls to achieve expected levels of service.
Enhance and retain, at a high level, areas of natural value in public and private ownership	Retain Natural assets at a high level (e.g. Estuary Management equipment for wrack harvesting, Gross pollutant traps, asset protection zones, fire

	trails for safety purposes etc.)
Community will be well educated, innovate and creative	Adequate community facilities associated with education and innovation – libraries and community programs delivered using Council assets

2.1.4 Asset Management Strategy 2011/12

Our first AMS, adopted in June 2011, based on actual financial results from 2009/10 included an assessment of the condition of all built assets and a limited number of open space and natural assets, and revealed that many assets were in a less than satisfactory condition.

It identified that:

- In order to improve the condition rating to satisfactory, $184m was required to be spent upgrading existing assets (including Water Supply Authority assets).
- If left to continue as it had been, our asset portfolio would be in danger of potential serious deterioration, with consequent risks to health and safety.
- If no action was taken, the future financial burden would increase as both the cost of ongoing operational maintenance and the cost of addressing the asset condition increases over time
- Council was continuing to underfund asset maintenance by an additional $17.5m each year, exacerbating the deterioration trend and consequences.

Subsequent asset management strategies have continued to quantify the outstanding backlog in asset renewal in dollar terms, and raise the fact that Council must, in line with the adopted Asset Management Policy, either address the backlog and ongoing underfunding of maintenance, or commence a process of asset rationalisation and cease construction of new assets.

The Draft AMS 2013-2017, currently on exhibition, identifies a asset renewal backlog of $130m in General Fund, highlighting the urgent need to either address the backlog or commence asset rationalisation.

2.1.5 Long Term Financial Strategy 2011/12

The LTFS 2011/12 identified that the need to address the asset backlog as outlined in the AMS was critical and that the trend of operating deficits was unsustainable.

This is a significant document in that it clearly flagged that the existing and forecast level of Ordinary Rates was not providing enough income to address these issues and would not in the future without a SV.

The LTFS committed Council to adopt a pathway to financial sustainability, with incremental steps to a nil operating deficit by 2014/15.

This is to be achieved via:

- A multi-faceted management effort to improve productivity, contain costs, share services and review service priorities (see more in *Sections 3.3.2 and 7*)

- Exhausting all potential revenue opportunities including reviews of fees and charges, asset portfolios, partnerships, grants and sponsorship (see more in *Section 3.3.2*)

- Consideration of a SV

The LTFS 2011/12 assumed no significant changes from the overall current structure, services and service levels at that time but clearly acknowledged that this would result in underfunding of Council's recurrent operations as well as asset maintenance and renewal. It identified that in 2012/13, Council should:

"investigate funding options and engage with the community for a special rate increase to fund the Operating shortfalls in order to re-establish a balance between Operating Income and Operating Costs." p165

Subsequent long term financial strategies have also reiterated this key message that the asset backlog must be addressed and that the only financially sustainable approach is via a SV.

The current Draft LTFS 2013/14, that incorporates the ten year Long Term Financial Plan (LTFP), identifies that the General Fund asset backlog of $130m cannot be addressed without a SV and further General Fund operating deficits are not sustainable and must be immediately addressed.

2.2 Summary

In summary, since June 2011, all of Wyong Shire Council's IP&R documentation has complied with DLG Guidelines and has:

- Clearly identified the existence of a significant and growing asset backlog, currently forecasted at $130m for General Fund assets. This must be reduced to prevent ongoing deterioration in conditions and corresponding increase in risk to health and safety.

- Adopted a pathway to financial sustainability demonstrated by achieving a nil operating deficit by 2014/15.

- Recognised the community's aspiration, particularly relating to assets that facilitate ease of travel, community connection and the protection of the natural environment, which strongly supports the case to address the asset backlog.

The current draft WSC Strategic Plan 2013-17 is currently on public exhibition.

Appendix:
2 – Draft Wyong Shire Council Strategic Plan 2013-2017
3 – Wyong Shire Council Strategic Plan 2012-2016 and LGSA Cost Shifting Media Release
4 – Tcorp Financial Assessment and Benchmarking Report, September 2012
5 – IPART letter confirming revised timeline 8 – Community Strategic Plan (2009) – adopted in 2009
7 – Community Strategic Plan (2030) – currently on exhibition in 2013
8 – Community Strategic Plan (2009) – adopted in 2009
9 – Council Report – 27 February 2013
10 – Wyong Shire Council Strategic Plan 2011-2015
48 – Mayoral Minute – 13 February 2013

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.

3.0.1 IP&R Document Overview

Our Draft 2013/14 Long Term Financial Strategy (LTFS) and Long Term Financial Plan (LTFP) confirm that we do not currently have the financial resources to deliver the services our community wants at the standard our Asset Management Strategy (AMS) requires in order to achieve adequate levels of amenity, utilisation and safety. To bring our General Fund assets up to a condition deemed satisfactory requires an additional $130m to be spent.

Our consolidated financial performance shows eight years (2005/06 – 2013/14) of successive net operating deficits ranging from $3.6m (2005/06) to $30m (2009/10) with current budget forecasts showing expected net operating deficits of $10.0m for 2012/13, $4.8m for 2013/14 and a surplus of $1.4m for 2014/15.

While a multitude of causal factors can be identified, many of which are common to councils across NSW, the responsibility for addressing this situation has not been taken lightly. Since 2010, our organisation has implemented major reforms across every aspect of our operations in an effort to improve financial sustainability.

These reforms, which include structural change, service reprioritisation, productivity initiatives and revenue maximisation strategies, have seen our financial results improve significantly.

Our LTFP now confidently forecasts a $1.4m surplus by June 2015, providing an ongoing annual improvement in operating performance of $30m over 2009/10 results.

3.0.2 Asset Backlog Overview

Even when we no longer have an operating deficit, we will still not generate enough cash from our operations to address our asset backlog and deliver services at the standard our community expects, and meet public safety standards.

As our consolidated operating result moves beyond breakeven, our General Fund is forecast to generate an average of $26.5m in operating cashflow annually over the next seven years. In line with the AMS, this will be used to satisfy renewals of assets that are fully depreciated, or need to be replaced in the event of emergencies such as flooding. There will be insufficient cash to close the asset gap (+$19m) and/or fund the new assets (+$6m) required to cater for growth.

Despite our hard work to increase revenue and contain costs, our capacity to push beyond breakeven and satisfy this cash shortage is severely limited due to the limited avenues available to generate incremental revenue, and the constraints and community impact of further reducing spending.

In addition, our capacity to borrow funds as an alternative option to address the asset backlog is limited due to liquidity issues. This has been confirmed by the NSW Treasury Corporation (T-Corp) who performed a financial review of the financial statements in November 2012.

Since the introduction of IP&R, we have defined Asset Management Plans (AMP) and a list of specific projects which would address the asset gap and bring assets to a satisfactory condition in a cost effective manner. However, without a Special Variation (SV), we cannot afford to implement our plan.

This would leave us with few alternatives other than to dramatically rationalise assets.

As the Asset Management Plans (AMP) and the asset portfolio itself underpin the delivery of essential services to the community, and have a direct impact on the level of community amenity and safety, broad scale asset rationalisation must be avoided if possible due to its direct and material impact on the social and economic well-being of our community.

There have been several formal reports during 2012 and 2013 communicating these issues to Council, and are located in *Appendix 12, 13 and 14.*

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 ☒

The purpose of our proposed SV does not require Council to undertake capital expenditure reviews in accordance with Council Circular 10-34.

The Circular requires Councils: "to undertake a capital expenditure review for projects that are not exempt and cost in excess of 10% of Council's annual ordinary rates revenue or $1 million (GST exclusive), whichever is the greater".

Projects such as land purchases; land remediation; stormwater drainage; domestic waste management facilities; roads; footpaths; bridges; and design and feasibility studies that do not commit Council to the project, are all exempt from the Capital Expenditure Guidelines.

Council's application for a SV is for the general purpose of improving financial sustainability by addressing our current infrastructure backlog, rather than specific individual capital works projects. As such, Council is not required to complete any capital expenditure reviews or make a submission to the Division of Local Government at this time.

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.

3.2.0 Asset Management Strategy 2013/14

Our AMS is an important document in our IP&R suite that reliably quantifies the outstanding expenditure needed to bring the average standard of our assets up to being 'satisfactory' condition for service delivery.

This amount, quantified as $130m for the General Fund, ties directly to our justification in applying for a SV of 6.9% each year for seven years, with the additional $78m it would raise representing substantive progress towards a sustainable position.

As a community service provider, we view our asset portfolio as the key enabler for the delivery of the majority of our services.

Whether to provide ease of travel, affordable opportunities for self-improvement, clean and affordable spaces for community gatherings, or to maintain a healthy natural environment, the objective is enabled through a physical asset such as a road, library, playground, recreation centre, community hall or park.

Therefore, the condition of our assets is inextricably linked to the level of service we can provide, with the underlying impact being that:

1. If an asset is in a satisfactory condition, our service is generally regarded as satisfactory

2. If our assets are in a poor condition, the service is generally regarded as poor and we need to consider the risk to the community in continuing to provide the service

3. If an asset fails, the service is not delivered

The AMS sets the asset management framework that determines the nature and direction of Council's asset management practices for the next ten years.

It allows us to determine whether both the physical assets, and the services they enable, are sustainable in terms of anticipated funding levels which allows staff to focus on the service delivery requirements of the assets rather than on the assets themselves.

To better explain the challenge that the $130m asset backlog presents to Council and the community we have reviewed the following:

- Asset portfolio

- Asset management system

- Asset backlog

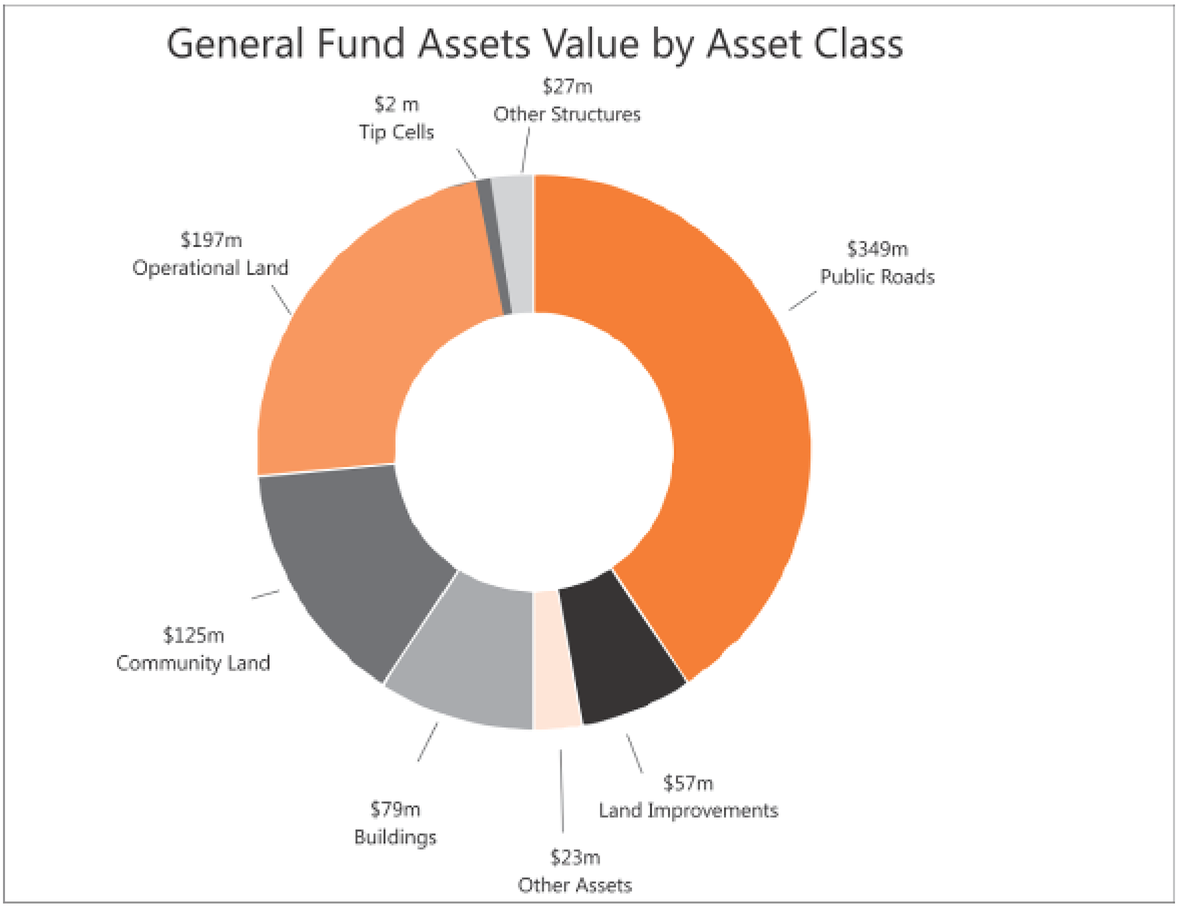
- Options to address the asset backlog
- Benefits of addressing the asset backlog and the impact of not addressing the asset backlog

3.2.1 Asset Portfolio

Our total infrastructure, property, plant and equipment asset portfolio (infrastructure assets) as at June 2012 was valued at $2.3 billion. Our General Fund infrastructure, property, plant and equipment asset portfolio (General Fund asset portfolio) totalled $859m as at June 2012 which represents 37.5% of Council's infrastructure assets.

A breakdown of the General Fund asset portfolio by asset class is illustrated in *Figure 2*.

Figure 2: Components of the $859m General Fund Asset portfolio by Asset Class



These assets have been built and maintained to provide a public service in line with the community's needs and preferences, with many built during the rapid period of growth that occurred in Wyong Shire in the 1960s, 1970s, and 1980s. Many of these assets are now coming to the end of their useful life and will need to be replaced.

3.2.2 Asset Management System

We have a sophisticated asset management system in place to capture data about the condition of our assets and to help us understand what is required to maintain them at various asset conditions, usage levels and functionality based on community expectations, and to identify and manage their risk profile.

This system indicates where there is a material gap between the current condition of the assets and the condition required to deliver "satisfactory" levels of service to the community.

One of the most important roles the asset management system has played since the inaugural AMS, in 2011/12, has been to extract reliable data from the system, particularly condition and serviceability indexes, and apply cost modelling.

One of the more sophisticated systems includes a technical tool known as the SMEC Pavement Management System that:

1. Accurately and consistently assesses road and paving conditions (expressed as a Pavement Condition Index - PCI)

2. Predict future road deterioration based on various options for intervention

3. Develops the optimised annual works program for the network

The PCI can range from 10 to negative figures (10 being the best).

This system, as well as those listed below, has been used to develop asset plans that manage each category of assets over their life cycle to minimise risk to public safety and service failure, and maximise benefit. The asset management systems that are available to Council and are being used and developed include:

- Strategic Asset Management (SAM) for buildings

- Management Information Systems (MIS) to improve measurement and reporting

- Asset Works Management (AWM) for natural assets

- Rationalisation of Assets Program (RAP) tool (explained further in *Section 3.3.1*)

- National Asset Management System (NAMS) templates

Since June 2007 all infrastructure, property, plant and equipment assets have been and will continue to be assessed on a cyclical program where each asset class is systematically revalued at least once every five years. Combined with the information we have collected and analysed in our various asset management systems we are able to predict when assets will need to be replaced and the current cost of replacement.

The results of this process have clearly flagged to Council and the community that a strategy must be developed to address the large and growing costs involved in restoring assets to a satisfactory condition in line with community expectations.

The Strategy has also revealed that undervaluing of assets in the past has been exacerbated by continued underfunding in our annual operational budgets.

3.2.3 Addressing the Asset Backlog

To support the delivery of our AMS we have defined Asset Management Plans (AMP) and specific projects which would address the asset backlog.

In simple terms though, we cannot afford to execute on these plans without a SV to expand the revenue base.

The AMS 2013/14 forecast provides a sound argument that Council needs to spend an additional $130m on General Fund assets to improve their condition to ensure the safety of the asset users, the delivery of services that the assets enable, and to ensure that conditions do not deteriorate to the point where the cost of addressing them escalates and causes undue generational inequities.

The AMS 2013-2017 states:

"Council's Annual Financial Statements include a detailed schedule, known as Special Schedule 7, for those assets that meet the traditional description of public works (roads, drainage, public buildings, and water and sewerage infrastructure)." p181

"In 2012 Special Schedule 7 highlighted that $158m of capital works is needed to bring Council's assets to a condition of no less than 3 "average". This figure is an improvement on the 2011 figure of $193m. There is also a $4.3m shortfall in the desirable level of annual maintenance expenditure to keep assets at that condition. This figure is an improvement on the 2011 figure of $7.4m." p182

"For all of the assets that are involved in the General Fund (not only those that are reported in Special Schedule 7), the capital shortfall is $130m." p182

Special Schedule 7 contains information relating to a traditional definition of public works assets such as roads, drainage, public buildings, and water and sewerage infrastructure and identifies the dollar figure to be spent to bring the condition of assets up to a desired standard.

Special Schedule 7 does not contain information on Council's assets which are not considered public works assets. Major asset categories not included are open space assets such as parks, beaches and playgrounds; natural assets such as asset protection zones and bushfire trails; and technology infrastructure such as hardware, applications, websites and telephony.

Table 6 outlines our target condition for each asset category. For the majority of assets, WSC target a condition of 3, or satisfactory.

The term 'satisfactory' is defined by the DLG in the Planning and Reporting Manual as:
"satisfying expectations or needs, leaving no room for complaint, causing satisfaction, adequate".

In some cases, for example some road and building classes, WSC aim for a condition of better than satisfactory on the basis of community priorities and safety considerations.

*Table 4 o*utlines how the relationship between the $158 million (which includes Water, Sewerage and Drainage assets) stated in Special Schedule 7 as at June 2012 to the $130 million General Fund asset backlog.

Table 4 – Estimated cost of bringing assets to a satisfactory condition

Asset Class	Cost to bring to satisfactory
Total Special Schedule 7 (SS7) including Water & Sewerage Assets	$158.085m
Less:	
- Water	($6.910m)
- Sewerage	($30.150m)
Water & Sewerage Sub-Total	($37.060m)
SS7 Adjusted Total - *Original asset backlog quoted for General Fund*	**$121.025m**
Less:	
- Drainage - *SS7 drainage assets have been split into drainage and stormwater assets*	($21.199m)
Total SS7 General Fund Assets	**$99.826m**

This is represented by the following asset classes

Asset Class	Cost to bring to satisfactory
Public Buildings	$4.368m
Public Roads	$94.254m
Stormwater Assets (GPTs/Wetlands) - *this was included as part of drainage assets in SS7*	$1.204m
Total Special Schedule 7 General Fund Assets	**$99.826m**
Additional costs identified since SS7 was prepared	
Public Buildings	$0.916m
Public Roads	$0.880m
Drainage (GPTs/Wetlands)	$0.796m
Total Additional Special Schedule 7 General Fund Assets	**$2.592m**
Additional asset classes not included in SS7	
Natural Assets	$4.280m
Open Space	$3.180m
Leisure and Tourist Facilities	$3.385m
Community and Cultural	$0.125m
Building Certification and Health	$0.010m
Communications	$0.120m
Integrated Planning and Reporting	$1.270m
Customer Contact	$0.037m
Finance	$1.350m
Information Management	$3.609m
Town Centre Improvements	$10.364m
Total Additional General Fund Assets	**$27.730m**
Total General Fund Closing the Gap Capital Required	**$130.148m**

The following table, from the AMS, sets out the various ways in which Council describes the condition of its assets, for different audiences, and the relationships between those descriptors.

Table 5: Comparative Asset Condition Terminology

Comparative	Asset Condition by Number	Asset Condition by Words	Asset Serviceability Index (ASI)	Pavement Condition Index (PCI)
Best Practice	1	Excellent / Perfectly fit for purpose	1	Between 9 and 10
Above Average	2	Good / Fit for purpose	2	Between 7 and 9
Standard	3	Average / Useful for purpose	3	Between 4 and 7
Basic	4	Poor / Not fit for purpose	4	Between 2 and 4
Minimal	5	Very poor / Not really usable	5	Less than 2

The AMS includes the following table which summarises the average condition of Council's existing assets, along with the target condition for each asset category.

Table 6: Current Asset Condition and Target

Asset Class	Asset Category	Asset Condition	Target	Achieved Target
Roads 1048 km road 1021 km Kerbing 220 km footpath 22 timber bridges	Sealed Road Surface	Average (3.2)	2.5	No
	Sealed Road Structure	Average (3.2)	2.5	No
	Unsealed Road	Average (2.5)	3.0	Yes
	Kerb and Gutter	Poor (3.5)	3.0	No
	Bridge	Poor (3.9)	2.5	No
	Footpath	Average (3.4)	3.0	No
Open Space	Playgrounds	Average (3.1)	2.5	No
	Jetties	Average (2.8)	3.0	Yes
	Boat Ramps	Average (2.6)	3.0	Yes
	Swimming Enclosures	Good (2.0)	2.5	Yes
Buildings 565 buildings (of which 264 are community buildings)	Administration/Depot	Good (1.8)	3.0	Yes
	Aged Care	Average (3.0)	2.5	No
	Arts and Culture	Good (2.0)	2.5	Yes
	Child Care	Good (2.1)	2.0	No
	Community Centre and Halls	Good (2.0)	2.5	Yes
	Heritage Buildings	Average (2.9)	3.0	Yes
	Library	Good (2.0)	2.0	Yes
	Holiday Parks	Good (2.1)	2.0	No
	Neighbourhood and Youth	Average (2.7)	3.0	Yes
	Public Amenity	Average (3.1)	3.0	No
	Recreation Centres	Good (2.0)	2.0	Yes
	Residential	Average (3.0)	3.0	Yes
	Sports and Recreation	Good (2.3)	2.0	No
	Surf Clubs	Good (1.9)	2.0	Yes
	Swimming Pools	Average (2.9)	2.0	No
	Tourist Offices	Good (2.0)	3.0	Yes

Key:
1. Excellent: Near Perfect Condition
2. Good: Some superficial deterioration. Only minor additional maintenance work required

3. Average: Serious deterioration, requiring substantial maintenance
4. Poor: level of deterioration affects the fabric of the asset, requiring major reconstruction or refurbishment
5. Very poor: Deterioration is such that asset is rendered unserviceable. Urgent renewal and or upgrading required

In assessing the cash crisis that Council currently faces related to addressing this asset backlog, further detailed analysis (of the General Fund) has been conducted since June 2012 to determine the value of funds required to bring all of Councils assets to an satisfactory condition.

While the AMS is silent on the reasons for the asset gap developing to such a significant amount, the simple answer is that it has arisen after decades of underfunding of operational maintenance and asset renewals as these funds have been diverted to other increased operating costs. This underfunding, while now acknowledged and understood, continues to occur and contributes to an escalation of the problem. Without the SV we are unable to close the asset gap as we have limited avenues for additional revenue (explained further in *Section 3.3.2)*.

3.2.4 Long Term Financial Plan

Council's LTFP sets out the funding scenarios that Council has considered to address this backlog over the maximum allowable SV period of seven years. The scenarios are detailed and further explained in *Section 3.3*.

Council needs approximately $19m per year ($130m / seven years = $18.6m per year) to be able to fund the capital works required. Council does not have this cash available and has exhausted the majority of cash flow initiatives available prior to seeking a SV.

Table 7 demonstrates that Council cannot address the backlog without additional funding.

Table 7: Scenario of Spending for Asset Renewal, Upgrades and New Works

Scenario	General Fund Renewals (depn) $'m	General Fund Upgrades $'m	General Fund New $'m	Max total Capital $'m
Scenario 1: Base case	25.0	0.0	1.5	**26.5**
Scenario 2: 9.5% Full Rate Variation	25.0	19.0	6.0	**50.0**
Scenario 3: 6.9% Partial Rate Variation	25.0	15.0	4.0	**44.0**

Asset renewals funding is for the renewal of existing assets – which includes replacement, rehabiliaton, refurbishment to enable the delivery of services at the original level of service. The renewal capital budget has been set at $25m as this represents the depreciation of the exisiting infrastructure assets and allows us to achieve the asset sustainability ratio of 1 as per the AMS. From an asset management perspective depreciation is the wearing out, consumption or other loss of value of an asset whether arising from use, ageing or obsolescence through technological or market changes.

The funding for closing the asset gap is for renewal works which exceeds annual asset renewals funding to bring the asset condition up to a satisfactory level. In some instances this funding will be used to upgrade our assets, to enable the delivery of services at the levels expected by the community.

Funding for new assets is for the purchase or construction of new assets and does not include the replacement of exisiting assets. New assets projects will be approved based on Council's requirements to respond to emergency needs or to address growth with the Shire.

The AMS has been developed based on Scenario 2 - Full rate variation 9.5% as this would allow Council to fully address the asset backlog within the seven year application period. With Scenario 3 – Partial Rate Variation 6.9%) Council will not be able to fully address the asset backlog within the seven year application period. The Draft WSC SP 2013-2017 identifies the need to continue the efforts to find further internal savings, review services and rationalise assets.

The AMS also contains outcomes under Scenario 2 to close the asset gap. Since the AMS was prepared, Council has resolved to apply for a SV under Scenario 3. Therefore the outcomes need to be adjusted as follows to meet the AMS requirements:

- Limit capital expenditure to an affordable cash level of $44 million per annum
- Fund renewal work at $25 million per annum including the natural assets
- Spend $15 million per annum to close the asset gap over ten years
- Allow $4 million per annum for necessary new work
- Asset conditions will improve over a longer period of time
- Asset spending is affordable ensuring that Council is financially sustainable
- Allows for necessary new and upgrade work
- Allows some spending on natural assets
- After the asset gap is closed the asset maintenance expenditure can be reduced
- The $15 million per annum previously spent on closing the gap may will then be able to be spent on funding the residual asset gap and addressing the looming risks and funding requirements identified in *Section 3.3.0.7*.

The following table sets out the planned expenditure, in the General Fund, on the asset portfolio over the next seven years under Scenario 3.

These figures are based on the current gap and priorities and will be reviewed annually. The project priorities which will be assessed on community priorities for asset classes (feedback from the exhibition of our annual capital expenditure program), asset condition, usage levels and functionality required to deliver services, project optimisation, evaluation and ranking tools to ensure that we intervene at the optimum time to gain the maximum benefit from the investment. However, the general trend needs to be followed to achieve the desired result and capital expenditure can not exceed $44 million per annum.

Based on an average spend of $15m per year toward correcting the backlog ($105m over seven years), there will still be an additional $25m that Council will need to address.

Table 8: Scenario 6.9% General Fund Capital Expenditure

SCENARIO 3 - 6.9% Special Variation - Total Capital Expenditure of $44.0 million

Year		1	2	3	4	5	6	7	8

$25.0 million for asset renewals

Financial Year Asset Class	Total $'m	13/14 $'m	14/15 $'m	15/16 $'m	16/17 $'m	17/18 $'m	18/19 $'m	19/20 $'m	20/21 $'m
Roads	109.468	13.000	13.000	13.000	13.000	13.000	13.000	13.000	18.468
Public Buildings	15.233	1.900	1.900	1.900	1.900	1.900	1.900	1.900	1.933
Open Space	1.837	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.437
Sport Leisure and Recreation	7.294	0.900	0.900	0.900	0.900	0.900	0.900	0.900	0.994
Community & Cultural	0.011								0.011
Town Centres	8.692	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.692
Natural Assets	3.488	0.400	0.400	0.400	0.400	0.400	0.400	0.400	0.688
Tuggerah Lakes Estuary	15.719	2.000	2.000	2.000	2.000	2.000	2.000	2.000	1.719
Plant and Fleet	38.853	5.000	5.000	5.000	5.000	5.000	5.000	5.000	3.853
Building Certification & Health	0.001								0.001
Communications & Customer Contact	0.014								0.014
Finance & IP&R	0.233								0.233
Information Management	4.982	0.600	0.600	0.600	0.600	0.600	0.600	0.600	0.782
Asset Renewals Total	**205.825**	**25.000**	**25.000**	**25.000**	**25.000**	**25.000**	**25.000**	**25.000**	**30.825**

$15.0 million for closing the asset gap

Financial Year Asset Class	Total $'m	13/14 $'m	14/15 $'m	15/16 $'m	16/17 $'m	17/18 $'m	18/19 $'m	19/20 $'m	20/21 $'m
Roads	83.462	10.965	10.965	10.965	10.965	10.965	10.965	10.965	6.707
Public Buildings	4.636	0.609	0.609	0.609	0.609	0.609	0.609	0.609	0.373
Open Space	2.793	0.367	0.367	0.367	0.367	0.367	0.367	0.367	0.224
Sport Leisure and Recreation	2.969	0.390	0.390	0.390	0.390	0.390	0.390	0.390	0.239
Community & Cultural	0.107	0.014	0.014	0.014	0.014	0.014	0.014	0.014	0.009
Town Centres	9.096	1.195	1.195	1.195	1.195	1.195	1.195	1.195	0.731
Natural Assets	3.753	0.493	0.493	0.493	0.493	0.493	0.493	0.493	0.302
Tuggerah Lakes Estuary	1.758	0.231	0.231	0.231	0.231	0.231	0.231	0.231	0.141
Building Certification & Health	0.008	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
Communications & Customer Contact	0.137	0.018	0.018	0.018	0.018	0.018	0.018	0.018	0.011
Finance & IP&R	2.299	0.302	0.302	0.302	0.302	0.302	0.302	0.302	0.185
Information Management	3.157	0.415	0.415	0.415	0.415	0.415	0.415	0.415	0.252
Closing the Asset Gap Total	**114.175**	**15.000**	**15.000**	**15.000**	**15.000**	**15.000**	**15.000**	**15.000**	**9.175**
Cumulative Closing the Asset Gap		**15.000**	**30.000**	**45.000**	**60.000**	**75.000**	**90.000**	**105.000**	**114.175**

$4.0 million for new works

Financial Year Asset Class	Total $'m	13/14 $'m	14/15 $'m	15/16 $'m	16/17 $'m	17/18 $'m	18/19 $'m	19/20 $'m	20/21 $'m
To be determined	32.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000
Total Capital Expenditure	**352.000**	**44.000**	**44.000**	**44.000**	**44.000**	**44.000**	**44.000**	**44.000**	**44.000**

Specific projects within the proposed expenditure for each asset class will be selected each year by Council, based on feedback from the community on the draft SP, current circumstances and using project optimisation and evaluation and ranking tools.

3.2.5 Draft Wyong Shire Council Strategic Plan 2013-2017

Part 2 of the 2013/17 SP discusses the community impacts of not addressing the asset gap.

3.2.6 Benefits of Addressing the Asset Renewal Shortfall

In this section we explain the likely benefits for the Wyong community of the proposed works program if Scenario 3 (increase of 6.9% each year over seven years) is approved, and examine the costs to the community of not approving the variation.

The benefits we expect to achieve from addressing our $130m General Fund asset backlog can be broadly grouped as follows:

- Public safety benefits
- Social benefits
- Economic benefits
- Environmental benefits.

Public Safety

The most important benefit of improving our assets is to provide reliable services to the community which pose no threat to public safety.

The negative impact of asset failure is a significant risk, both morally and financially and Council's statutory liability means that if risks are unacceptable, assets must be closed to the public.

Asset failure in some categories, like roads, bridges, can have catastrophic consequences. For example the collapse of the roadway bridge over Piles Creek, Somersby in 2007, in which five people died. The coroner's inquest found that the failure of the Roads and Traffic Authority and Gosford City Council to take action or initiative to fix problems with the bridge led to the collapse.

Our asset management systems identify and categorise the level of risk and this information has a significant impact on expenditure prioritisation.

An example from our 2013/14 Capital Expenditure Program that would be funded if a SV of 6.9% is approved is Berkeley Road Upgrade.

Berkeley Road functions as a high traffic regional distributor road however it is still in its original rural condition with a number of narrow curved sections, deteriorated pavement and lack of clearance to power poles and trees. Without funding there is significant risk of injuries and loss of life through accidents occurring on these sections. Closure to avoid public safety risk would significantly impede residential access and linkage to the F3.

Another example from our 2013/14 Capital Expenditure Program that would be funded if a SV of 6.9% is approved is Saltwater Creek Footbridge. Without funding, this footbridge will continue to deteriorate to the point where there is significant risk of people being injured if it fails. Closure to avoid public safety risk would limit the use of Council's network of shared pathways that are connected via this bridge and in turn reduces opportunities for positive healthy activities for the community.

A further example from our 2013/14 Capital Expenditure Program that would be funded if a SV of 6.9% is approved is Sohier Park Timber Road Bridge Upgrade at Ourimbah. Without funding, this timber bridge will continue to deteriorate to the point where there is significant risk of vehicles and/or people being swept away. Closure to avoid public safety risks would significantly reduce access for heavy vehicles to access local business, and significantly impact traffic through Ourimbah University.

If we do not address the risk of asset failure, loss of services and risk to public safety will place unacceptable liability on Council, Councillors and staff.

Social Benefits

It is particularly important to consider the social impact of not addressing our asset backlog. Whilst Council provides a lot of direct services to the community, some of Council's assets such as our community facilities are used by community groups and other levels of government to deliver services and conduct activities that contribute positively to the community's social wellbeing. Therefore Council's assets directly enable the delivery of services which provide a range of social benefits including improving health, leisure, education, and the reduction of social isolation.

Our direct services to the community such as libraries provide affordable and safe access to information for a variety of purposes including self-education and leisure, as well as locations for community groups to hold meetings and classes. Our child care centres not only provide educational activities and social interaction for children, they also enable parents to return to work or studies which has both economic and social benefits in the reduction of social isolation.

Council provides many community facilities, such as halls, community centres, senior citizens centres, for the benefit of the wider community. These community facilities make a fundamental contribution to our communities by:

- Providing a space for groups to interact which supports the building of community connections, participation and ownership

- Providing suitable spaces to deliver services, programs and activities to meet the social needs of the community and build community capacity. This includes a range of educational, lifelong learning, recreational, leisure, cultural, skills development and social activities and programs for residents of all ages and backgrounds.

Over time a number of assets will deteriorate to the point where they will need to be withdrawn from service or be rationalised. This will have a significant negative impact on the quality of life of Wyong Shire residents and mean that the community's aspirations, as identified in the Community Strategic Plan, will be less realistic and have less chance of being achieved.

Council employs an asset rationalisation tool to assess which assets should be rationalised and when. This is outlined in *Section 3.3.1*.

Economic Benefits

Council assets directly contribute to the economic prosperity of the region primarily by providing a network of transport assets which the community uses to access workplaces, engage as a consumer in retail and service economies, and to pursue recreational activities.

Council assets, including street furniture, paving, parks, car parks, kerb and guttering and landscaping contribute to the attractiveness, safety, amenity and ultimately the vitality and success of economic centres.

In Wyong Shire, Council's management of natural areas including coastline, beach access and waterway quality provide a fundamental contribution to the area's attractiveness as a tourist destination, flowing on to a range of economic benefits including employment.

All of Council's assets and services provide an economic impact for the whole community. Council provides services and facilities which the community values which makes our Shire an attractive place to live which in turn improves property values. Conversely if Council does not provide services and facilities that the community values this will result in a decline in population, a decrease in the economic environment and a reduction in property values. The long term result is, other areas will become a more attractive place to live so people may move away from Wyong Shire.

The economic risks of not addressing our asset backlog come about through reduced amenity and attractiveness of the Shire with consequent negative impacts on tourism, retail, employment and property values. Any reduction in local employment will come with an associated social cost and increase the level of disadvantage from either reduced employment levels or increased levels of long distance commuting for work and well-evidenced pressures on individuals and family well-being.

Environmental Benefits

Council assets contribute to the environmental quality of the Shire by maintaining natural areas including ovals, parks, lake foreshores, coastline, natural areas as well as the general aesthetic quality of the condition level of all built assets.

Our Quality of Life survey tells us the community places a lot of value on the environmental and recreational opportunities our Shire provides which contributes to their overall wellbeing.

Apart from the Estuaries that we manage we also have 3,500 hectares of bushland. To protect life, property and the environment we need to invest in improving our:

- Asset protection zones (APZ)
- Fire trails
- Bushland initiatives to protect our native flora and fauna
- Wildlife corridors

In doing so we are protecting the environmental and recreational opportunities our Shire provides.

Edye Fire Trail is a high priority fire trail with all design work completed and approvals from appropriate bodies received. Funding is now required to complete the scope of works required to ensure that the soil erosion and major sediment issues which are flowing into the neighbouring non-Council owned property are rectified to make the fire trail operational. Approval of the SV will enable these essential works to take place.

Scaddens Ridge Tower on State Forest land holds vital communications infrastructure for not only critical Council operations (water and sewer telemetry and 2 way radio communications) it is also critical for emergency services communications – fire, police, ambulance, rescue services and RFS. The asset protection zone around this site needs to be improved to ensure that our critical infrastructure is available to delivery essential services.

Improvements in asset protection zones around key infrastructure is a priority as is protecting historical landmarks such as St Barnabas Church in Yarramalong (which is the oldest building in Wyong Shire since Alison Homestead was burnt down) and the approximately 6,000 homes adjoining Council owned bushland.

Poor asset condition in traditional built asset categories like roads can also have a negative impact on the natural environment with eroded or degraded surfaces and materials catchments via run off and contributing silt build up and erosion. An example of this type of condition and risk is demonstrated by the photo below from our Assessment Guides for Sealed Roads, from Pearce Rd, Kanwal (*Figure 8*).

Table 9 provides a brief overview of benefits and impacts on General Fund asset categories under each of the two scenarios.

Table 9: Benefits and Impacts

Asset Category	Impacts of Rate Peg only	Benefits of 6.9% SV increase
Roads	• Due to strong community preference for increased funding of roads, a lower level of SV increase will not impact this asset category significantly, however some roads will remain in a less than satisfactory condition. • No new road infrastructure	• Good focus in renewing and upgrading our Shire's road network. This will improve the condition of our roads over the seven year period but some will remain in less than satisfactory condition. • Minimal optional new road infrastructure. • Timely renewals will ensure assets meet basic levels of service.
Playgrounds	• Many will become dilapidated overtime and will require removal due to not meeting Australian Standards. • No new playgrounds.	• Can be mostly maintained as per Australian Standards. Condition will slowly increase over period beyond seven years. • Minimal new playgrounds.
Jetties & Boat Ramps	• There will be zero work on closing the gap undertaken; a few of the jetties around Tuggerah Lakes may require closing due to structural deterioration through age. • No new jetties.	• Remedial works will be undertaken over the ensuing seven years with some possible related closures foreseeable. • Minimal new boat ramps and jetties.
Footbridges	• There will be zero work on closing the gap undertaken; several footbridges located in outdoor passive recreation areas will require closing due to structural deterioration through age. • No new footbridges.	• Remedial works will be undertaken over the ensuing seven years with some possible related closures foreseeable. • Minimal new footbridges.
Town Centres	• Majority of assets will remain less than satisfactory • No new works undertaken.	• Town centre conditions slowly improve over the following years but some conditions will remain less than satisfactory. • Less likelihood of new works.
Tuggerah Lakes Estuaries	• Zero work on dealing with unsatisfactory items would be performed. Gross pollutant traps and other environmental devices,	• Progressive, but slower program to replace unsatisfactory devices • Lakes will improve but some

Asset Category	Impacts of Rate Peg only	Benefits of 6.9% SV increase
	some thirty years old will fail. • The result will be an increase of pollutants entering Tuggerah Lakes.	areas remain unprotected for longer.
Public buildings	• A marginal increase in condition of public buildings. • No new works.	• A steady reasonable increase in condition of public buildings with many returning to satisfactory condition. • Limited new works.
Asset Protection Zones (APZ) - part of Natural Assets and fire trails review Currently 116 APZ which covers 30.7km or 28.1ha Require an additional 244 APZ to cover 34.6km or 20.76ha	• Minimal work on improving asset protection zones and fire trails. Focus will be on extreme and some very high danger APZ as identified in the Bushfire Risk Management Plan developed by the Bushfire Management Committee of which Council is a member. Will not be able to address all very high and high danger APZ within a satisfactory time period • No new APZ and we have no funding to manage s63 notices served by RFS to undertake hazard reduction works • No new fire trails • Unable to meet RFS and legislative requirements which means life, property and the environment is at severe risk	• Will be able to address the extreme, very high and high danger APZ and fire trails as identified in the Bushfire Risk Management Plan (developed by the Bushfire Management Committee of which Council is a member) within the seven year application. • Minimal new APZ • Still unable to meet RFS and legislative requirements however reduction of risk to Community, Rural Fire Service and other emergency services • No new fire trails
Fire Trails - part of Natural Assets review Currently 40 fire trails of which 20 are operational (15.2km in total and 20 are non-operational (25.4km in total) Require an additional 6 fire trails totalling 4.2km	• Minimal work on renewing fire trails. Focus will be on extreme and very high danger fire trails. • No new fire trails	• Minimal work on improving fire trails. Focus will be on extreme and very high danger fire trails. • No new fire trails

3.2.7 Summary

Our analysis of the community's capacity to pay a 6.9% increase each year for the next seven years recognises that while the community will face financial challenges, Council must also consider the consequences of not addressing the asset backlog on current and future generations. In assessing these consequences we have reviewed the public safety risks, social and economic impacts and the deterioration of the natural environment in not addressing the asset backlog. We believe that only in addressing the asset backlog are we able to provide the community with the services that it requires and values.

As stated in the AMS:

"Council recognises that the community will face financial challenges because of the proposed rate increase. However, Council must also consider the consequences of not addressing the asset funding gap on current and future generations. Doing nothing is not an option and maintaining the rate peg will generate a reduction in services that the community would not find acceptable. The community has indicated support for an increase less than 9.5%. The proposed 6.9% increase provides a solution that is reasonable to the community and produces a satisfactory outcome." P32

The benefits are evident and provide a strong case for approval of a SV increase, our position equally holds that the alternative of doing nothing is not a responsible option due to unacceptable public safety risks and expected negative impacts on community well-being.

These outcomes would not align with the community's stated expectations, priorities and aspirations. All of these projects will be at risk if the SV is not achieved.

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.

3.3.0 Overview

In this section, we put forward our case for a Special Variation in the context of our Long Term Financial Plan (LTFP), and present future budget scenarios with and without a Special Variation (SV).

The scenarios are based on clear and reasonable assumptions outlined in *Section 6*.

Recent revenue and expenditure results are included along with external assessments on our financial capacity.

Referencing our LTFP we will demonstrate that:

- Council has experienced successive and significant operating deficits on both a consolidated and General Fund basis in recent years. These deficits have been driven by a number of causal factors, some common across all NSW councils, and others unique to Wyong. The deficits and a growing asset backlog have called into question our financial sustainability.

- A financial transformation program begun in 2010 has improved our financial performance and set us on a path to breakeven in the Consolidated Fund.

- Further opportunities to move beyond breakeven or source alternative funding options are severely limited in the short to medium term.

- Even when we achieve a breakeven position or minor surplus, there will not be sufficient operational cash flow to bring our assets up to a satisfactory condition to ensure community amenity and safety, and progress the community's vision.

- If we attempt to spend in accordance with our Asset Management Plan (AMP), cash and investments will be exhausted by 2016, a fact recently validated by the Treasury Corporation (TCorp) and the Division of Local Government (DLG), along with strongly-worded advice to reduce planned and required asset expenditure if we can not increase revenue.

- A SV of 6.9% per year over seven years will not enable us to completely close the asset backlog, but will address the majority of it. Viewed over a longer time horizon, this will enable us to become and remain sustainable while progressively improving service standards to the level desired by the Wyong community.

- We consider a SV to be the only option that ensures financial sustainability while enabling the continued provision of services this includes community amenity, quality of life and safety.

The AMS and AMP, described in *Section 3.2*, set the technical requirements to satisfy the Community Strategic Plan (CSP) and realise the community's vision, and have quantified the amount required to fulfil this as being $130m.

The Long Term Financial Strategy (LTFS) and LTFP indicate that the asset plan, and therefore the community vision, is not affordable without a SV.

3.3.0.1 History, Current and Future Challenges

Wyong Shire Council is both a Local Government Authority and a Water Supply Authority. This means that Wyong Shire Council not only delivers the diverse range of valuable services associated with that of a local government body, but also wholly operates a water and sewerage business as well.

To ensure that there is appropriate measurement of the performance of each of these businesses, and to ensure that regulations governing proper use of funds are complied with (for example section 409 of the Local Government Act), Council accounts for a General Fund (local government activities) separately to a Water and Sewerage Fund (Water and Sewerage only). When combined, these two businesses are referred to as the consolidated entity. Reference to these funds will be referred to throughout this document. It is important to note that the Rate Variation applies to the General Fund only. Where possible, reference is made to General Fund only.

On a consolidated basis, Wyong Shire Council has endured eight successive years of operating deficits, peaking at a $30m deficit in 2010. The General Fund deficit peaked at $18.8m in the same year.

The LTFP includes a summary of the key historical factors which have strongly contributed to the current financial situation, with most not being unique to Wyong Shire and have been appraised comprehensively in academic, government and other research, such as the Independent Inquiry into the Financial Sustainability of NSW Local Government (Percy Allan Report, 2006).

Combined, these factors have resulted in a widening gap between the cost of providing services and our capacity to pay for them, and include:

- Disparity between cost increases and rate peg increases
- Cost shifting from other levels of government
- Improvements to asset management methodology
- Increases in the amount of services and level of service provided
- Geographical challenges and low population density
- Specific Environmental challenges

Disparity between Cost Increases and Rate Peg Increases

Council's ability to raise income to fund operations (under our General Fund) is regulated by the DLG and subject to the rate peg system. Rate pegging limits a council's ability to increase certain rates and charges and the disparity between rate peg increases and the true cost of providing services have been widely documented.

For Wyong, the rate of disparity between the rate cap increase and general cost inflation (or one-off increases) has a significant negative and cumulative impact as income from rates constitutes our largest revenue stream (42% of General Fund).

Conversely, our largest expenditure category is employee costs (43% of expenses in General Fund) with increases set externally via the Local Government Award with many years the increase in Award being above the rate of increase in the rate peg.

A clear example of cost growth outstripping rate increases is the recent increase in electricity costs of 43% between 2007 and 2010 (NSW Government Industry and Investment NSW Electricity Network and Prices Inquiry Final Report, December 2010). As a resource and energy intensive business, increases in electricity costs have a significant impact on overall operating expenditure.

One-off increases such as the introduction of the Carbon Emissions Scheme will compound the impact of energy cost increases for materials and contracts with suppliers passing on the full cost of the Carbon Scheme to Council.

The lack of autonomy for Wyong Shire Council to set rate income at a level that would recoup true costs over many years has resulted in increased pressure on Council's budget over years, contributing to our current asset backlog.

Cost Shifting from Other Levels of Government

Cost shifting describes where the responsibility and/or costs of providing a certain service, asset or regulatory function are shifted from a higher level of government to a lower level of government without providing corresponding funding or adequate revenue raising capacity.

Despite the recognition of cost shifting and its adverse impact, statistical data collated from councils by the Local Government Shires Association (LGSA) shows cost shifting remains at a high level, presently costing NSW councils an average of 6% of their total income before capital amounts. The average for Wyong Shire Council is 10% over the seven year period to 2014.

According to LGSA, contributions toward public health and safety, lack of adequate funding for public libraries, and the failure to reimburse councils for mandatory pensioner rebates are major examples of where councils have not been given sufficient financial resources for transferred responsibilities.

Detail of the cost shifting Council is responsible for can be found in *Appendix 3*.

Improvements to Asset Management Methodology

As previously noted, Wyong Shire grew rapidly in the 1960s, 70s and 80s and much infrastructure was built at that time to cater for this growth. At this time cash accounting was common to most councils and excess cash was generally used to expand service delivery. This resulted in very little being reserved to fund asset renewal as depreciation costs were not accounted for.

The change from cash accounting to accrual accounting identified unfunded depreciation costs in the operating budget that led to operating deficits. The ongoing failure to fund depreciation has resulted in a substantial asset backlog.

In addition, changes to the Australian Accounting Standards in 2006, from valuing assets at historical cost to replacement cost, had the effect of significantly increasing asset values, with subsequent financial impacts on provisions for depreciation, and the flow on costs to replace the assets.

Improved methodologies and technology for assessing and forecasting the engineering cost side of asset management, also meant that the information used for financial planning has become increasing accurate. Having the tools to properly measure and assess asset conditions means we can now quantify and articulate the current gap between Council's assets and a satisfactory condition.

Determining the right balance between investments in new assets and re-investment in existing assets has been a key challenge. New assets are required to service a growing population and a large geography. Meanwhile, older assets reaching the end of their lives or requiring upgrade also need funding.

The table below demonstrates the trend in the Building and Infrastructure Renewals Ratio (cost of asset renewals divided by depreciation expense) that shows Council has not been investing enough in its existing assets. This ratio should equal 1.0 to ensure that assets are replaced in a timely manner.

The failure to replace or upgrade assets as needed over many decades has resulted in a current average asset condition that is lower than satisfactory.

Table 10: Renewal Ratio Overview

	2008/09	**2009/10**	**2010/11**	**2011/12**
Renewals Ratio	0.82	0.61	0.52	0.74

As Council evolves with its strategic asset planning, a stronger relationship is building between the CSP, AMPs and LTFP to ensure investment in assets is optimal both economically and socially.

The LTFP 2013/14 is fully integrated and provides a financial balance between community aspirations, asset optimisation, and financial sustainability.

Number of Services and Level of Service to the Community

Community expectation regarding the provision of services and capacity to pay in 1950-1980 is very different to today.

Councils in those days were expected to provide "roads, rates and rubbish" services. Now community expectations and the breadth of what the ratepayers expect form their councils have changed. Councils are involved in many other services (for example libraries, recreation facilities, community services, planning, environmental control, emergency management, etc) with little to no corresponding increase in income.

In addition the standard and quality of service expected from Central Coast communities has changed profoundly. In the 1950s and 1960s (prior to the construction of the F3) the Central Coast was considered a holiday destination and holiday makers were more accepting of lower infrastructure standards.

The construction of the F3 made Wyong, and the Central Coast, more accessible to Sydney and as a result the Central Coast became home to a greater number of people who expected infrastructure at a higher standard.

Operating costs have therefore increased in order to fund a greater variety and a higher quality of service.

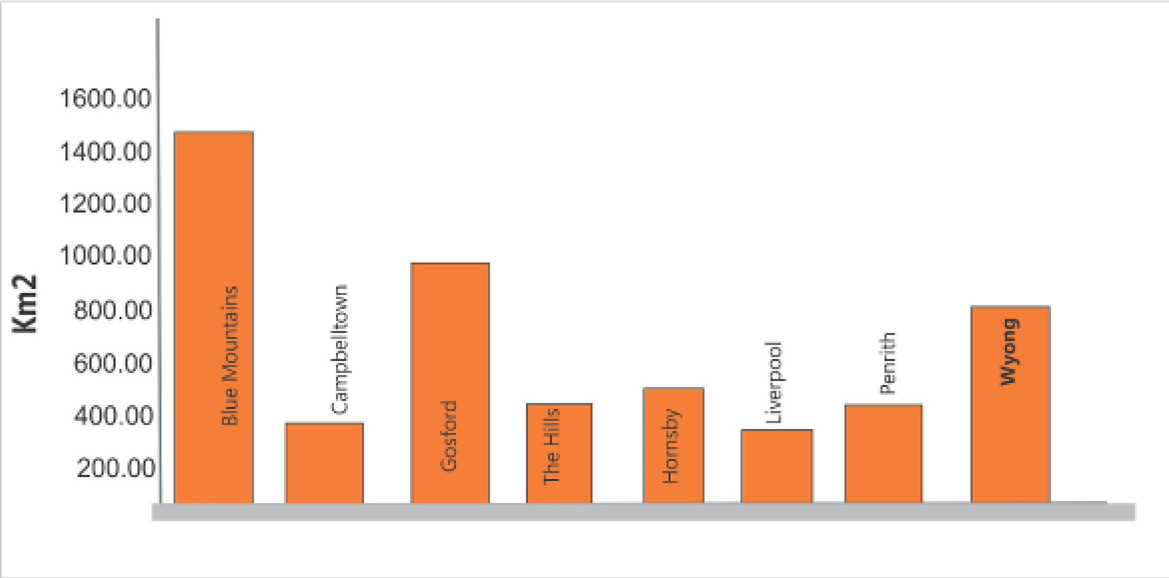
Geographical Challenges and Low Population Density

The Wyong Local Government Area (LGA) has the 3rd largest land area of the DLG Group 7 councils. With a total land mass of 820.42km^2.

Providing infrastructure across such a large area presents a significant challenge, particularly when developing new residential areas which requires completely new infrastructure.

In simplistic terms, the larger the area, the more infrastructure required to connect the vast distances. This is particularly relevant for roads, footpaths and drainage. Costs to maintain the infrastructure also grow exponentially with the distance. Compared with an established metropolitan council, or even other councils within Group 7, the physical distance to build and maintain infrastructure is substantially higher in Wyong Shire.

Figure 3: Area in square kilometres



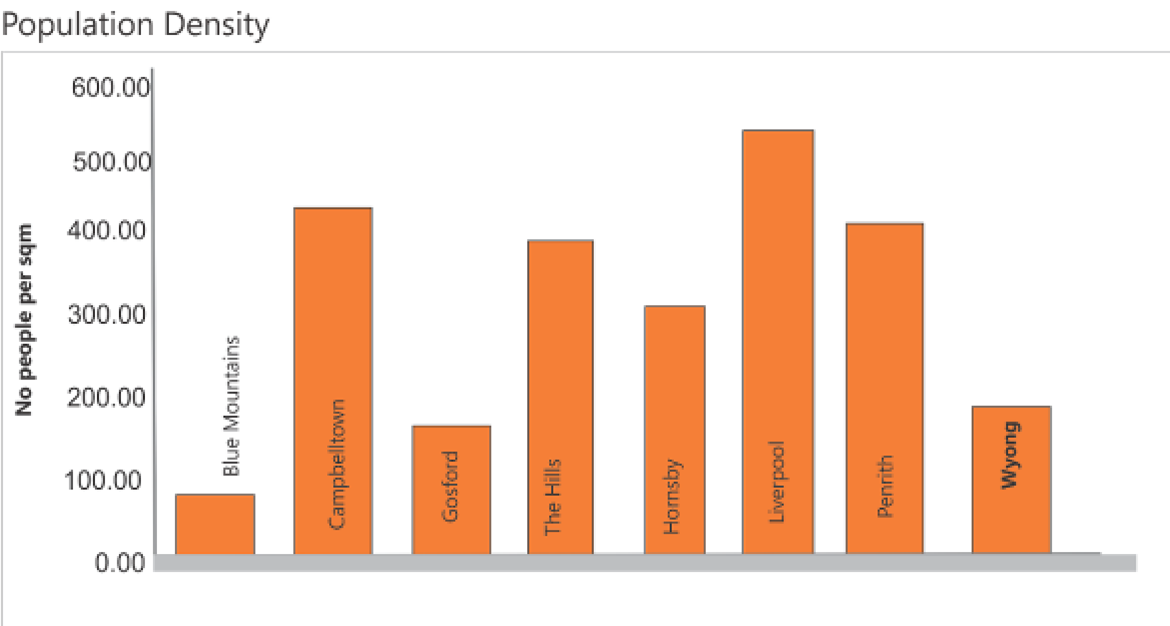
Our geography also poses challenges, encompassing a large estuary/lake system which adds an additional 79.6km^2 to the local government area and impacts infrastructure planning.

This saltwater estuary is situated right in the middle of the Shire's land mass, making direct transport links difficult and increasing the overall length of roads and other infrastructure required and consequently increasing upgrade and maintenance costs.

The settlement pattern around the lakes makes public transport less profitable and creates congestion on the arterial roads that circumnavigate the lakes.

Wyong Shire also has the third lowest population density of the Group 7 councils. The low number of people per square kilometre comparative to other councils means the burden of infrastructure falls onto comparatively fewer people.

Figure 4: Population Density Comparison with Group 7 Councils



Specific Environmental Challenges

Wyong faces unique environmental challenges which are causing our cost base to grow substantially.

The Tuggerah Lakes Estuary is in urgent need of ongoing rehabilitation as a result of population growth and misuse in previous decades. While the estuary is owned by the NSW Government, Council has the responsibility of maintaining it, a significant and ongoing cost impost.

In 2013/14 alone, we plan to spend at least $7m in works to maintain and rehabilitate the Lakes. Expenditure in this area includes harvesting of 2,000 tonnes of dried wrack, channel dredging to ensure channels remain open for recreation and navigational purposes, upstream rehabilitation activities to rehabilitate the 670km^2 catchment area, and wetland maintenance.

In addition, a further $3m will be spent annually on replacing gross pollutant traps feeding into the lakes, and a further $1m of Capital is budgeted in the current year for new wrack harvesting equipment.

A large area of WSC is flood constrained with low lying areas around the lakes. Many of our assets in those areas are impacted by floods and require special, expensive construction and renewal programs to deal with the flood inundation issues.

3.3.0.2 Path to Financial Sustainability

On a consolidated basis, we experienced our most severe operating deficit of $30m in 2010. In 2010, the General Fund deficit also peaked at $18.8m.

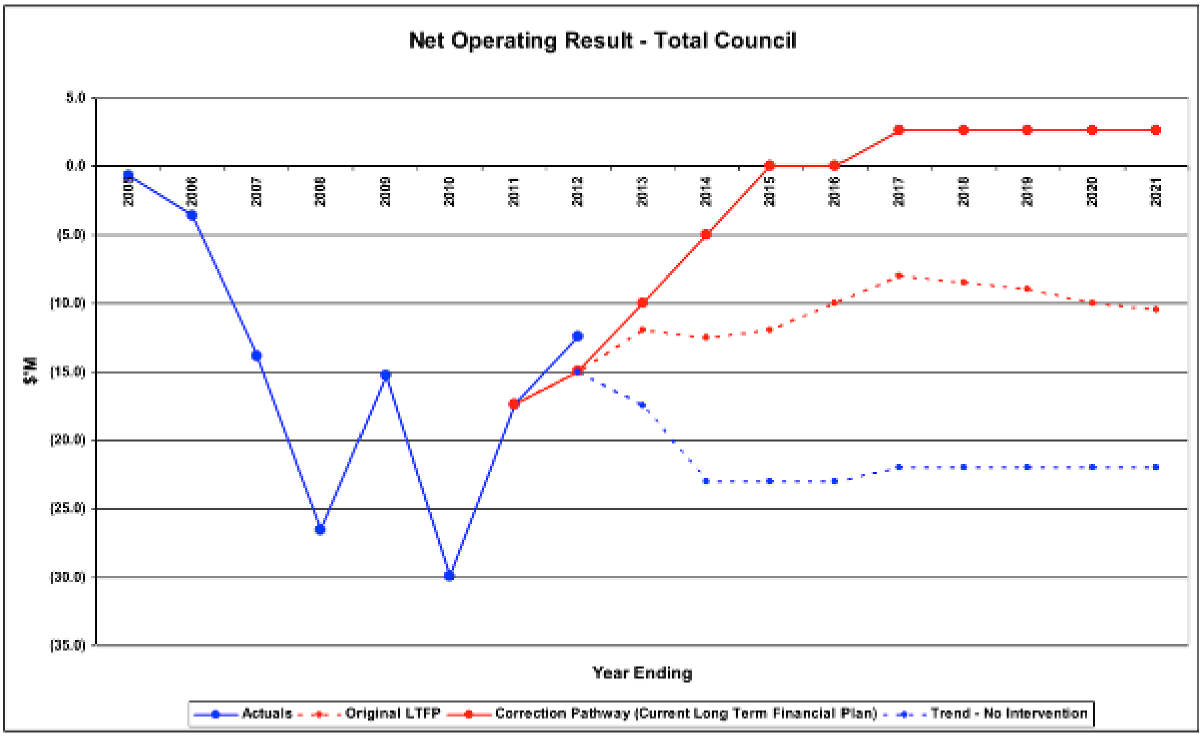
At this time, a financial transformation program was put in place in order to put Council on a pathway to financial sustainability.

This transformation has seen our consolidated deficit reduce from $30m in 2009/10 to $17.4m in 2010/11 and $12.4m in 2011/12. We are confidently forecasting a deficit of $10m for 2012/13 and the budget has been formulated to meet our long term target of a $5m deficit in 2013/14 and breakeven in 2014/15.

Without this transformation, analysis indicates that the Consolidated deficit would have continued to run at over $20m.

This trend is illustrated in *Figure 5,* comparing our corrected pathway with previously forecast results.

Figure 5: Net Operating Result – General Fund

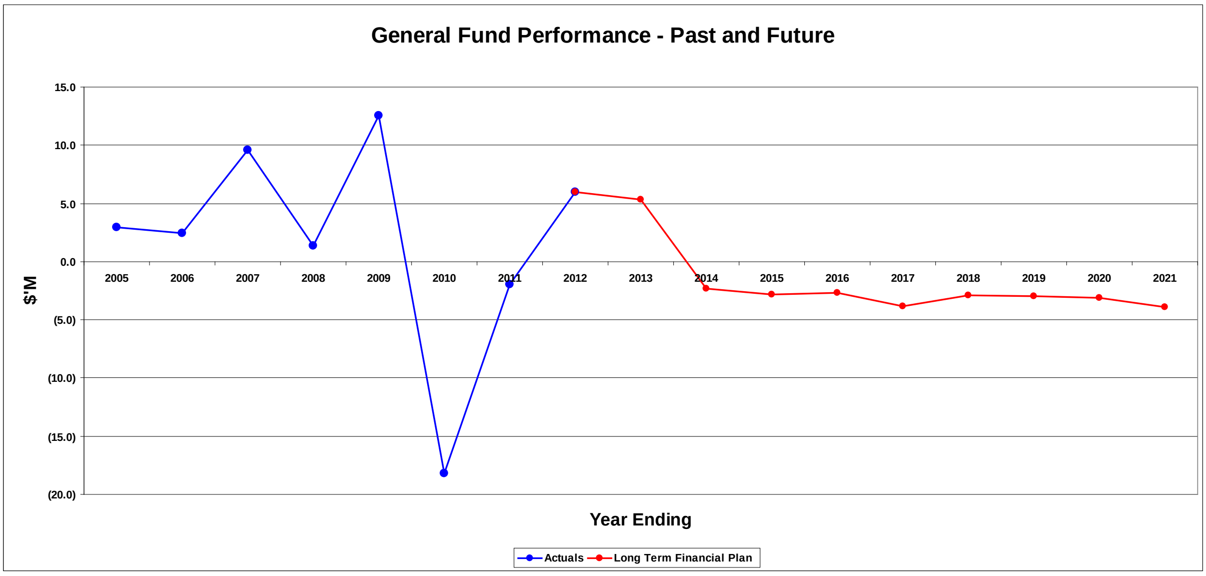


Our General Fund has been a significant contributor to this financial turnaround.

A deficit of $18.8m in 2009/10 was reduced to a deficit of $2m in 2010/11 and the General Fund realised a surplus of $6m in 2011/12. The General Fund has therefore contributed to $24.8m of annual ongoing improvements to our operating results, as illustrated in *Figure 6*.

The current forecast is for a surplus of $5.3m in 2012/13.

Figure 6: Net Operating Result – Total Council



The productivity improvements, cost savings, and incremental revenue initiatives leading to this turnaround are detailed in Section 7, along with our plans to continuously review every aspect of operations in an effort to find further cost efficiencies or sources of income.

However, having undergone significant transformation and streamlining over the past four years, the opportunity to improve the operating result to the extent required to fund the asset management plan is severely limited in the short to medium term. Further improvement is constrained by the structure of the cost and revenue bases, and significant regulatory and other constraints as explained in *Section 3.3.2*.

In addition to the $24.8m of ongoing improvements already achieved, to adequately fund the asset gap without an SV, a further $19m of improvements would be required off an expense base of $156.3m.

In addition, further pressure will be placed on the General Fund in the coming years due to the conclusion of grant funding for management of the Estuary. For the past five years (including 2009/10 where an $18.8m deficit was recorded) the General Fund results have been artificially improved by an Estuary Management Plan (EMP) Grant under the Federal Governments "Caring for our Country" program. In total, $20m of operating grant funding has been received over the past five years. This program concludes in 2012/13 and $3.2m is budgeted to maintain the estuary improvements funded under this program,

The need to fund estuary maintenance, along with cost growth, has pushed the 2013/14 General Fund forecast (without a SV) to return to a minor deficit position of $2.3m.

Clearly any attempt to realise the required savings would involve significant impact to service delivery and/or rationalisation of assets which would have a direct impact on service delivery.

In addition, the opportunity to borrow to fund the Asset Management Plans is also constrained given the underlying economics of our General Fund (as confirmed by T-Corp, incremental revenue is required, or capital spend must be reduced in order to address these economics).

Alternative options relating to the revenue, expense and funding options are examined in *Section 3.3.2*.

3.3.0.3 Funding the Asset Management Strategy

The LTFS envisions a sustainable path in the future where asset renewal works are adequately funded to avoid adding to our asset backlog. These works would be undertaken at the same time as we address the existing asset backlog as well as allowing for some new assets in line with population growth.

Renewals

Our adopted Infrastructure Asset Management Policy and Asset Management Plans clearly dictate that our first priority for asset investment is asset renewal, which will see us optimally maintain our assets from now on.

Targeting an Asset Sustainability Ratio of 1, this would equate to spending an average of $25m in capital works annually to replace assets as they reach the end of their useful life.

Closing the Gap

Special Schedule 7, along with more recent analysis from the asset management planners, indicates that the existing gap between the condition of our General Fund assets and a condition deemed satisfactory is $130m.

The AMS has determined that the optimal time to close this asset gap (in terms of cost effectiveness, social outcomes, execution capability and asset safety) is seven years. This means an average spend of approximately $19m per year, over and above the renewal capital of $25m per year, is needed over the next seven years to close the gap.

New

Further, with a growing community and the prospect of urgent and unfunded new infrastructure (for example a natural disaster or a road project required to connect a Section 94 funded development) some funds will be required to pay for new capital. While the AMPs prioritise new capital spend below renewals and closing the asset gap, there will always be a requirement to fund some new capital projects. The AMPs incorporate this requirement as $6m per year.

The optimal AMS therefore requires $50m in capital expenditure each year to renew existing assets, close the existing asset condition backlog, and cater for new capital required for urgent initiatives and anticipated growth. The composition of the annual capital requirement under the AMPs is as follows:

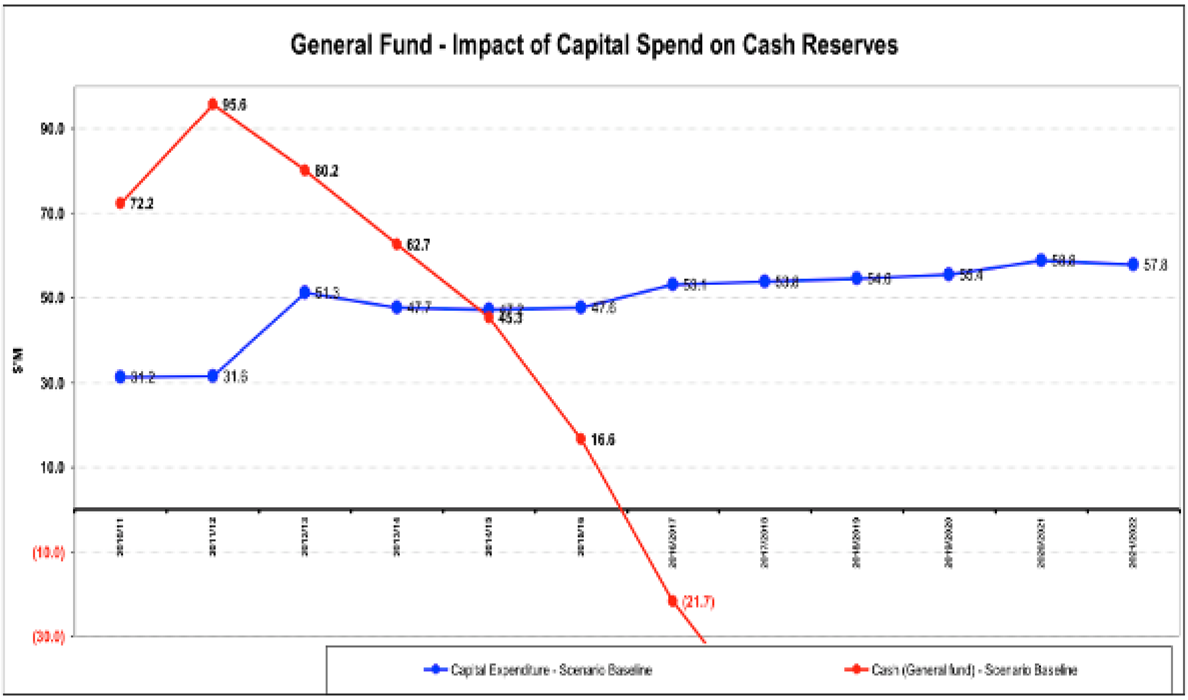
Table 11: Capital Expenditure by Type

Capital Type	$'m
Renewals	25
Upgrades (Close the Asset Gap)	19
New	6
Total Annual Capital	**50**

However, if no SV increase is granted, there will be insufficient cash-flow from operations to satisfy our AMS and little or no funds available to address the asset backlog or build any new assets.

Modelling shows that if we attempt to satisfy the spending requirements of the AMS without any SV increase, General Fund cash and investments would be exhausted by 2016 and Council would be facing serious liquidity issues.

Figure 7: Impact of Capital Spend on Cash Reserves



The above graph is based on the WSC SP 2012-2016 which included sufficient capital to fund the AMPs, while staying silent on the impact of this capital requirement on cash levels. The rationale was that as cash was reducing, borrowing would fund the capital requirement.

Several external agencies expressed serious concern at this approach, with the NSW Treasury Corporation (T-Corp) implying that the capacity to borrow was limited based on the underlying fundamentals.

3.3.0.4 Independent Views

Our need to close the asset management gap while being unable to do so without increased revenue or material impairment to existing services, is a critical dilemma.

The issue has been acknowledged by Council's own independent Audit & Risk Management Committee in a report to Council on 23 January 2013 (*Appendix 21*), and further reinforced by two recent external assessments of Council's financial position by the DLG and T-Corp.

Division of Local Government Annual Financial Review, January 2012

The Division of Local Government's review of Wyong's 2010/11 financial position raised a series of concerns regarding our financial position, including:

- Consolidated net operating results for the last five years with ongoing forecast deficit results in Council's Long Term Financial Plan
- Deficit net operating results in the Sewerage and Water Funds over the past four years

- A low annual infrastructure renewal rate of 51.77%, with a four year average of 87.84%. Council should aim to achieve a rolling average of 100% for all asset categories

- A shortfall in expenditure for the maintenance of infrastructure assets in 2010/11 of $7.3m. Over the past four years, Council has short funded estimated required asset maintenance to a total of $29.2m.

- Concern over the condition of Council's infrastructure assets as reported in Special Schedule 7

- Internally restricted funds for infrastructure renewal and replacement considered insufficient given Council's low infrastructure renewal rate, shortfall in annual maintenance, poor condition of infrastructure assets and the estimated cost to bring assets to a satisfactory standard.

NSW T-Corp Financial Assessment and Benchmarking Report, September 2012

A recent independent assessment of Council's financial capacity and ability to undertake additional borrowings was undertaken by NSW Treasury Corporation in September 2012 as part of a review on Council's capacity to borrow and service loans under the Local Infrastructure Renewal Scheme (LIRS).

The assessment focused on Council's General Fund, and found that over the past year three years (review period) Council had been well managed. However, in regard to Council's ten year forecasts for the General Fund it found:

- Cash and investments are forecast to be exhausted by 2016 which is not a sustainable position. A revision of the capital expenditure forecast to an affordable level should resolve this liquidity issue.

- Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its cash and investment levels are forecast to be exhausted by 2016.

- This is a serious liquidity issue which Council needs to consider, develop options and remodel. Should Council consider adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense, then additional borrowing could be considered.

The most significant statement above is that unless additional operating cash flow was achieved, future capacity to borrow was limited.

3.3.0.5 Financial Sustainability Scenarios from the Long Term Financial Plan

In the Draft WSC SP 2013-2017, the obvious lack of connection in the past between the AMS and the LTFP has been acknowledged and we show that we have listened to the concerns of external agencies.

It is Council's clear responsibility to ensure financial sustainability regardless of the outcome of the application for a SV.

The benefits of satisfying the AMP, and the impacts to community safety, amenity and quality of life in not satisfying this plan have been outlined in *Section 3.2.6*.

However, rationalisation of assets and material impacts to service must be considered if no new revenue can be secured. This is why the Draft WSC SP 2013-2017 models three distinct scenarios which provide a clear plan to ensure the financial sustainability of Council under various rating outcomes.

Scenario 1 – Base Case (Rate Peg at 3.4% for 2013/14 and 3% thereafter)

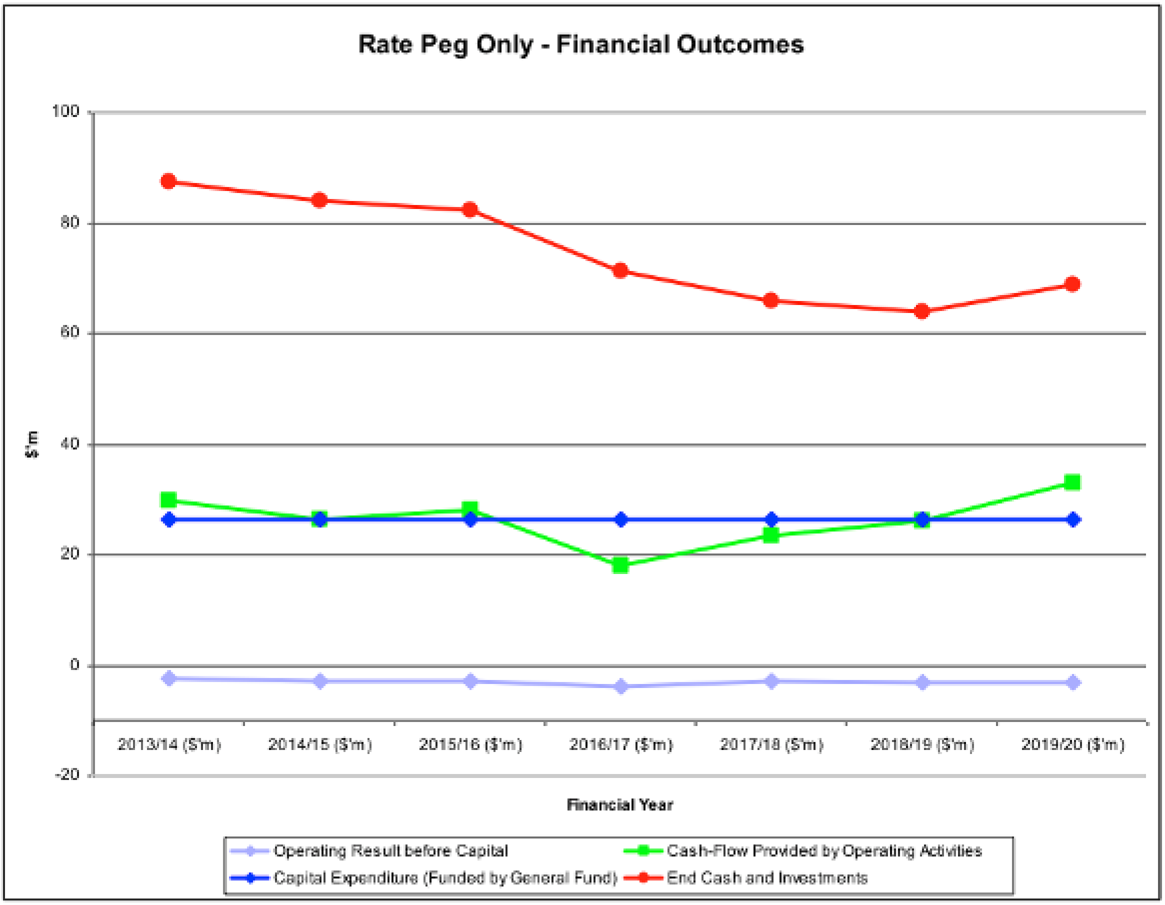
If no SV is granted, capital expenditure will need to be reduced in order for Council to remain solvent in the medium to long term. The lack of cash-flow from operations, and the resulting reduction in capital expenditure means there is no prospect of closing the asset gap.

Table 12 below indicates the financial outcomes and the resulting affordable capital profile for the General Fund that would occur under Scenario 1.

Table 12: Base case financial outcomes 2013/14 – 2019/20

Scenario 1 - Base case	2013/14 $'m	2014/15 $'m	2015/16 $'m	2016/17 $'m	2017/18 $'m	2018/19 $'m	2019/20 $'m
Operating Result before Capital	-2.3	-2.8	-2.7	-3.8	-2.9	-3.0	-3.1
Cash-Flow Provided by Operating Activities	29.9	26.4	28.2	18.1	23.4	26.1	33.1
Capital Expenditure (Funded by General Fund)	26.5	26.5	26.5	26.5	26.5	26.5	26.5
End Cash and Investments	87.6	84.0	82.3	71.2	66.0	63.9	68.8

Figure 8: Base case financial outcomes 2013/14 – 2019/20



In this scenario, capital expenditure is reduced from the $50m required to satisfy the Asset Management Plan to $26.5m. The lack of new revenue means that the General Fund continues to run at a minor loss as cost growth continues to match and exceed the rate peg. Despite ongoing productivity initiatives offsetting cost growth, cash-flows from operations would not be sufficient to fund the required level of capital expenditure.

There would be sufficient resources to fund the renewal component of the plan (and thus achieve an asset replacement ratio of 1.0), but there will be little or no capital available to improve existing asset conditions and close the asset gap.

The annual average capital profile under this option is as follows:

Table 13: Base Case capital expenditure by type

Capital Type	$'m
Renewals	25.0
Upgrades (Close the Asset Gap)	0
New	1.5
Total Annual Capital	**26.5**

In this scenario, the AMP cannot be satisfied and the benefits noted in *Section 3.2.6* cannot be realised. More profoundly, as also explained in *Section 3.2.6,* this option exposes Council and the community to significant safety risks and a program of asset and service rationalisation would need to be undertaken.

Given the material detrimental impact to community amenity and safety, the adverse social outcomes, and the failure to realise the community vision, this is not the preferred option.

Scenario 2 – 9.5% Special Variation

Our AMP has specified that to close the asset gap in the most cost effective and timely manner, capital expenditure of $50m is required each year for the next seven years.

A SV increase of 9.5% would generate the required revenue and cash-flow from operations, generating total incremental revenue of $138m over the next seven years.

It would also provide a low level of funding for new assets (to cater for growth), and for natural assets. The assessment methodology for determining the capital requirements for natural assets is in its infancy and there is a risk that the amount of future funding required may be significant.

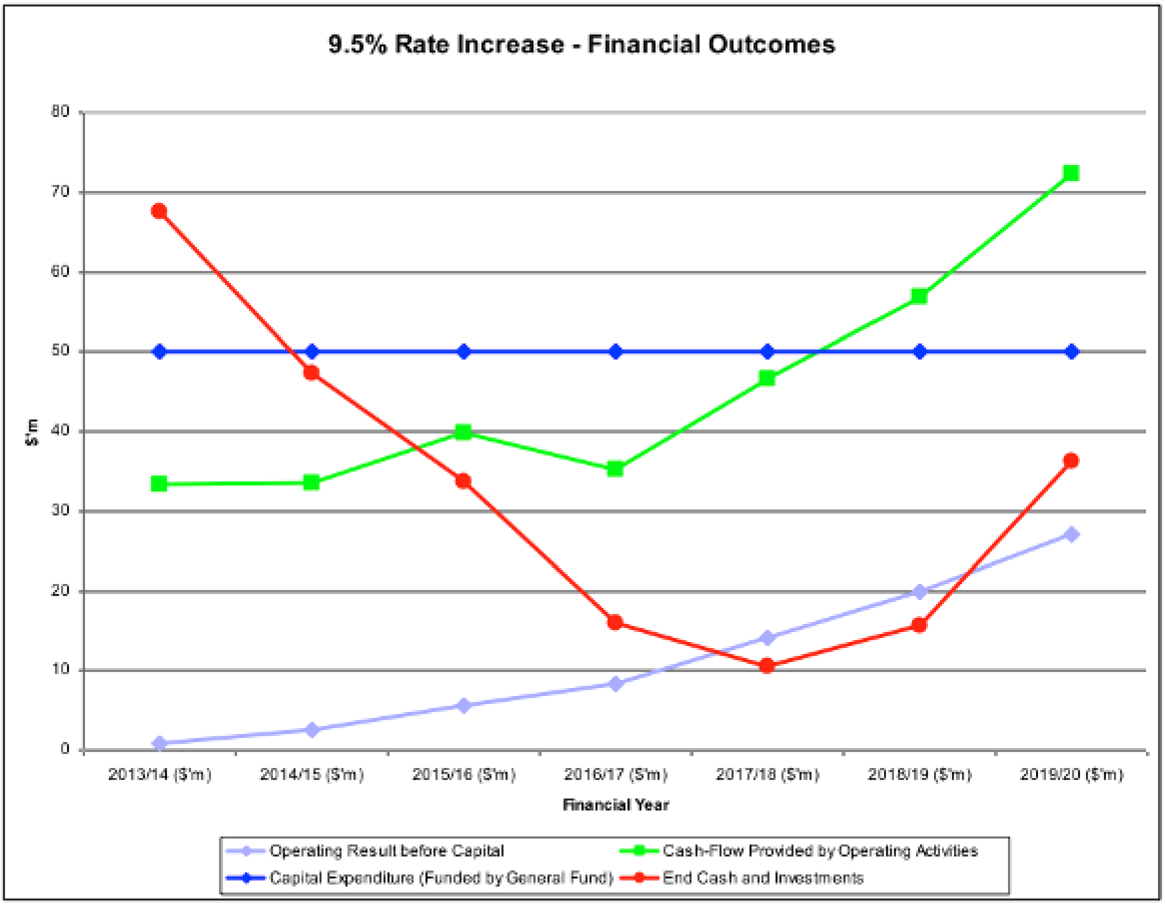
Our financial modelling also indicates that under this scenario, we would hold sufficient levels of cash for restricted current assets and liabilities.

Table 14 below indicates the financial outcomes and the resulting capital profile for the General Fund under Scenario 2.

Table 14: Scenario 2 financial outcomes 2013/14 – 2019/20

Scenario 2 – Full Rate Variation 9.5%	2013/14 $'m	2014/15 $'m	2015/16 $'m	2016/17 $'m	2017/18 $'m	2018/19 $'m	2019/20 $'m
Operating Result before Capital	0.9	2.6	5.7	8.4	14.2	20.0	27.1
Cash-Flow Provided by Operating Activities	33.4	33.5	39.8	35.2	46.7	56.9	72.4
Capital Expenditure (Funded by General Fund)	50.0	50.0	50.0	50.0	50.0	50.0	50.0
End Cash and Investments	67.5	47.3	33.7	16.0	10.5	15.6	36.2

Figure 9: Scenario 2 financial outcomes 2013/14 – 2019/20



In this scenario, the capital expenditure of $50m is affordable. The cashflow in the early years doesn't cover the capital spend, so total "Cash and Investment" falls in the early years. Stronger cashflow in later years reverses this trend as shown by the red line in the above graph.

The annual average capital profile (maximum) under this option is as follows:

Table 15: Scenario 2 capital expenditure by type

Capital Type	$’m
Renewals	25.0
Upgrades (Close the Asset Gap)	19.0
New	6.0
Total Annual Capital	**50.0**

While Scenario 2 provides an optimal level of future funding, Council listened to the feedback received throughout the consultation period on the community’s capacity and willingness to pay. Feedback during Stage 3 was that Council needed to find ways to further improve productivity and cost efficiencies, and to reduce non core services if required. There was also significant feedback that a 9.5% increase for seven years would have a significant impact on ratepayers’ capacity to pay.

Council’s view was that the 9.5% rate variation option did not compel Council strongly enough to realise further efficiencies as the asset gap was fully funded. Council therefore sought to reduce the burden on ratepayers and push staff for further efficiencies.

For this reason, Council resolved at it’s meeting on the 27 February 2013 to apply to IPART for an annual increase of 6.9% over seven years and rejected the 9.5% option. This is discussed further in Section 4.

Scenario 3 – 6.9% Special Variation

Scenario 3 provides our General Fund with an incremental revenue stream equating to $78m over seven years at an average of $11m per year. While this does not fully fund the asset backlog, improved cashflow allows for a significant proportion of the capital expenditure allocated for upgrades.

Despite only receiving $11m of incremental revenue per annum on average, we are confident that up to $15m can be spent on capital to close the asset gap, while still ensuring there is sufficient cash for restricted current assets and liabilities.

On the basis that $15m is dedicated annually to closing the asset gap, this will allow $105m of improvements to asset conditions across the seven years. This will mean that the gap will close from the current level of $130m, to around $25m by the end of the seven year period, and can continue to be addressed in subsequent years.

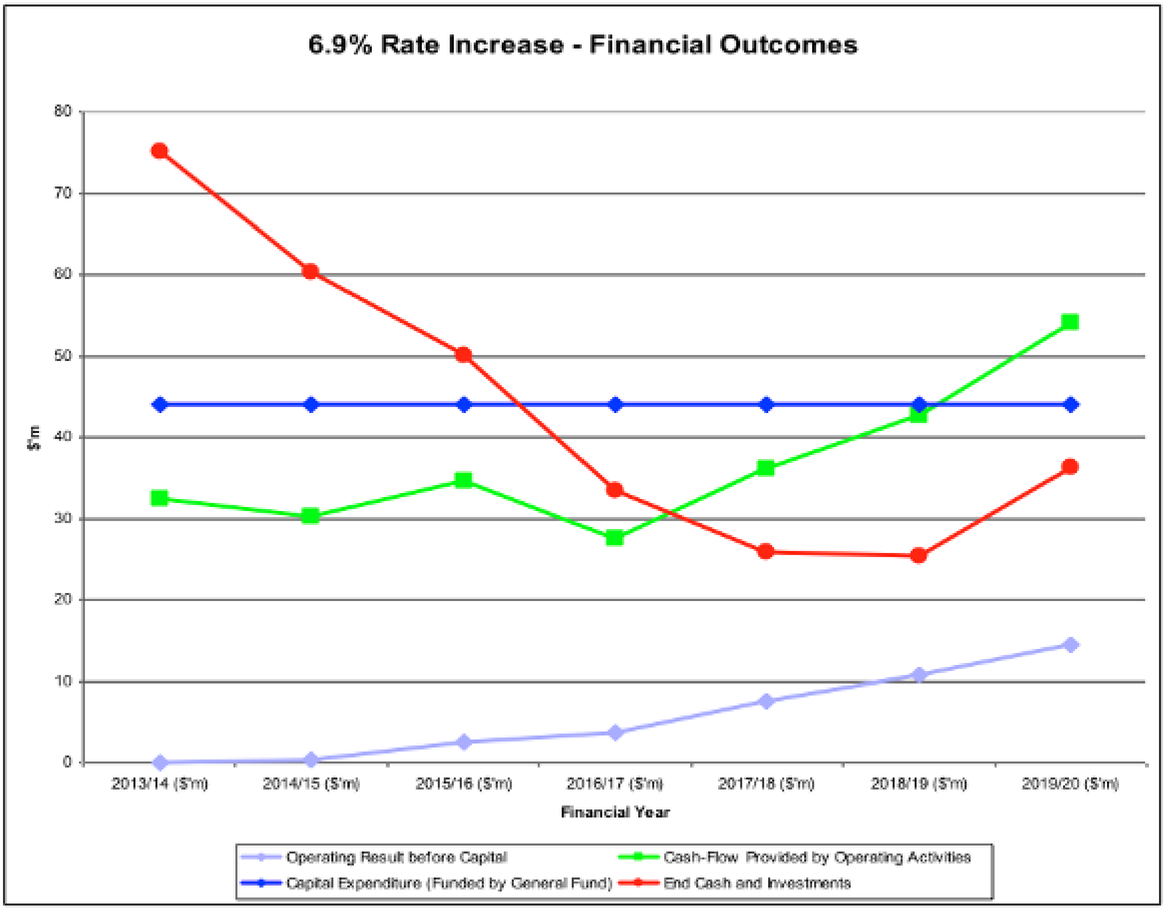
Further detail on how the remaining gap will be managed as well as the shortfall between incremental revenue and planned capital is presented below in the *Sections 3.3.2* and *7*.

Table 16 below indicates the financial outcomes and the resulting affordable capital profile for the General Fund under Scenario 3.

Table 16: Scenario 3 financial outcomes 2013/14 – 2019/20

Scenario 3 – Partial increase 6.9%	2013/14 $'m	2014/15 $'m	2015/16 $'m	2016/17 $'m	2017/18 $'m	2018/19 $'m	2019/20 $'m
Operating Result before Capital	0.0	0.4	2.5	3.7	7.5	10.7	14.5
Cash-Flow Provided by Operating Activities	32.4	30.3	34.6	27.5	36.1	42.7	54.1
Capital Expenditure (Funded by General Fund)	44.0	44.0	44.0	44.0	44.0	44.0	44.0
End Cash and Investments	75.1	60.3	50.1	33.4	25.9	25.4	36.3

Figure 10: Scenario 3 financial outcomes 2013/14 – 2019/20



In this scenario, capital expenditure is reduced from $50m to $44m and upgrade capital is restricted to $15m per annum.

The annual average capital profile (maximum) under this option is as follows:

Table 17: Scenario 3 capital expenditure by type

Capital Type	$'m

Renewals	25.0
Upgrades (Close the Asset Gap)	15.0
New	4.0
Total Annual Capital	**44.0**

The combination of further productivity gains, cost reductions, other revenue streams and some asset rationalisation will mean that this expenditure eventually close the gap and that Council can maintain adequate cash reserves.

3.3.0.6 Financial Implications of a Seven Year Special Variation Term

The profit and cash profiles shown above explain why the 6.9% increase is required for a period of seven years. Any lower percentage or duration of rate increase may have significant impact on ongoing liquidity and would force further capital expenditure reductions.

As visible in *Figure 10,* cash dips significantly before stabilising in year 6 and rebounding in year 7.

As shown in the below table, this is because the incremental revenue (and resulting cash-flow) in the early years is significantly exceeded by the cash capital spent on closing the gap.

In the first four years incremental revenue is only $25.5m versus the capital spend to close the asset gap of $60m. If the increase stopped at this point, further spend on upgrades would be reduced to zero to make up this shortfall. In this circumstance, a gap of over $70m would still be present after seven years and our cashflow would be at dangerously low levels.

Over the entire seven years, incremental revenue of $77.8m is generated, versus the capital upgrade spend of $105m (a shortfall of $27.2m over the life of the SV).

Table 18: Scenario 3 incremental revenue

Option 3 (6.9% Increase)	2013/14 $'m	2014/15 $'m	2015/16 $'m	2016/17 $'m	2017/18 $'m	2018/19 $'m	2019/20 $'m
Incremental Revenue (above rate peg)	2.2	4.9	7.7	10.7	13.9	17.4	21.0
Capital Expenditure (Close the Gap only)	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Cash Increase (Reduction)	(-12.8)	(-10.1)	(-7.3)	(-4.3)	(-1.1)	2.4	6.0

This immediately implies that Council will need to continue to examine all means to generate alternative sources of income, or take costs out of the business, The Long Term Financial Plan indicates that in order to spend this amount on closing the asset gap ($105m over seven years versus $78m of incremental revenue), there is a significant dependency on showing discipline in reducing spend on new assets.

Ongoing operational improvements will be essential in ensuring that Council can spend the money to close the asset gap while continuing to remain cash positive and in a position to satisfy all known liabilities and cater for unanticipated risks. *Section 3.3.2 and Section 7* provides some detail on areas currently being examined, and those that will be examined in the future.

3.3.0.7 Funding Beyond the Seven Years of a SV

Subject to the full approval of a special variation of 6.9% for seven years, our planning indicates we will not need to extend this SV, or apply for a new SV in 2019/20.

We are also conscious that at the end of the seven year SV period, the incremental revenue arising from the SV will still be permanently held in the rate base.

The following section highlights our current view on why this increased revenue base will be required and the options this will provide Council and the community, including the need to:

- Address the remaining asset backlog after seven years of at least $25m and/or increase asset condition above satisfactory
- Cater for anticipated population growth and a changing demographic - ensuring equity
- Absorb the impacts of increases in the development of 'greenfield' sites to accommodate population growth
- Increase funding for natural assets
- Reduce rates or provide higher service levels.

The Remaining Asset Backlog of $25m

At the end of the seven year SV period there will still be an asset gap of $25m.

The first priority beyond seven years will be to reduce the asset gap to zero as quickly as possible. It is anticipated that this could be done within two to three years of the expiry.

In addition, as the asset base continues to grow, the amount of capital expenditure spent on renewals will need to grow accordingly in order to maintain the asset replacement ratio at 1.0 or better. In fact during the seven year period, we will be underfunding the required renewals by keeping renewal funding at $25m while depreciation continues to grow.

This will in theory cause a new "gap" to arise across the seven years that will also need to be funded after the expiry of the SV. We estimate that this new gap will be around $18m. The funds held in the base will assist in closing this new gap within 5-7 years. *Appendix 49* analyses depreciation versus renewal capital and the reason it will take seven years to completely close the gap.

The asset gap only defines the cost to bring the assets to a satisfactory condition (an average condition of 3). This still leaves a substantial opportunity for improvement, and that improvement is needed if the 20 year Community Strategic Vision is to be realised.

Population Growth and a Changing Demographic

The population of Wyong Shire is anticipated to grow by over 50,000 by 2031 (a 25% increase).

New residents will expect a standard of service that is at least comparable to existing residents. This will require a substantial amount of new infrastructure including new roads, parks and sporting facilities, increased shared pathways etc.

Wyong has an ageing population with the change in demographic expected to result in a substantial increase in demand for different and enhanced infrastructure and services.

Development of 'Greenfield' Sites to Accommodate Population Growth

The increased population will result in the need to open up new "greenfield" sites for development and connect these new sites to existing developed areas. The provision of this new infrastructure will cost substantially more than is currently being spent on new infrastructure.

Increased Funding for Natural Assets

Our methodology for estimating the future cost of maintaining natural assets is still in its infancy. The cost to service and maintain natural assets has not yet been fully explored but with the recent Tuggerah Lakes Estuary program as a guide, there may well be a substantial and ongoing costs required well into the future.

We have been and are continuing to work on improving our planning and reporting on natural assets. We currently have 116 Asset Protection Zones (APZ) which covers 30.7km or 28.1ha and require an additional 244 APZ to cover 34.6km or 20.76ha. We also have 40 fire trails of which 20 are operational (15.2km in total) and 20 are non-operational (25.4km in total). To ensure that we meet legislative and RFS requirements we require an additional 6 fire trails totalling 4.2km.

If we continue to under fund our natural assets there are significant risks to life, property and the environment which we are unable to manage to reduce Council's risk which may impact our financial sustainability. Another impact to the community would be less bushlands for recreation resulting in less visitors which would negatively impact the local economy.

Reduce Rates or Provide Higher Service Levels

If a reasonable number of the productivity and economic initiatives articulated in *Section 3.3.2 and 7* are realised, there may be a time where an ongoing annual increase in line with the rate peg is not required. In this circumstance, Council has ultimate discretion to reduce rates. This would be a popular decision with ratepayers and would further encourage economic development.

Alternately, Council may decide to increase services or upgrade infrastructure to provide better amenity and encourage further growth.

3.3.1 Prioritisation of Proposed Spending

If possible, also explain how the council has prioritised 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 three funding scenarios referred to in *Section 3.3* have been prepared and referenced throughout the various components of the Draft WSC SP 2013-2017, including capital and operating budgets for OP and 4YDP.

The three separate programs of capital expenditure were determined using a range of prioritisation tools and consideration of the community's preferences.

The key elements used to prioritise our spending are:

- Community Strategic Plan (CSP)
- Service Standards Review 2012/13
- Asset Management System and plans
- Rationalisation of Assets Tool
- Project Assessment Team
- Quadruple Bottom Line

3.3.1.0 Community Strategic Plan

As stated in *Section 2*, the CSP articulates the community vision and eight priority objectives which are reflected throughout our Draft WSC SP 2013-2017. For a breakdown of how these relate to assets and services see *Table 3*.

3.3.1.1 Services Standards Review

The three stages of community engagement undertaken in 2012/13 sought feedback on the community's priorities and preferences around Council service provision. The detailed outcomes are included in *Section 4.2* and at *Appendix 25-41*.

Simply stated the findings showed the community valued:

- Renewals and upgrades over construction of new assets
- Smarter maintenance and operations options to be pursued to make dollars go further
- Roads and Drainage assets were the community's highest priority in every stage of consultation
- Next highest priority was Open Space, Sporting, Leisure and Recreation Facilities, Community Buildings, Town Centres and the Natural Environment.

3.3.1.2 Asset Management System and Plans

The asset management system, as outlined in *Section 3.2.2*, captures objective information about the condition of our assets, including the Paving Condition Index, and balances their risk profile.

Combining this information with Council's target condition level and available budget, the asset management system produces asset management plans for each category of assets and is the basis of spending prioritisation.

3.3.1.3 Rationalisation of Assets Tool

To manage the asset backlog, Council created an asset rationalisation project in 2011 to achieve a balance between asset ownership costs and the available funds, with the purpose of ensuring costs are justified and can be funded in a financially sustainable manner.

A key output was the creation of an asset rationalisation tool that determines whether assets are providing an appropriate investment both economically and in service delivery.

The RAP Assessment Tool, used by an asset planner, calculates a score that ranks how well an asset provides an appropriate investment for the community, weighting each of the quadruple bottom line factors and applying them to existing assets. Economic and social factors are weighted at 40% compared to 10% for governance and environmental.

3.3.1.4 Project Assessment Team

The Project Assessment Team (PAT) is an interdisciplinary committee established in 2011 to support the initiation and delivery of sustainable projects within the project management framework.

Its primary purpose is to review and rank proposed operating and capital projects as part of the project initiation process. This evaluation process assesses projects based on their contribution to serving the community and meeting objectives.

PAT takes into account business cases as well as evaluation of broader quadruple bottom line considerations - economic, environmental, social, and governance.

PAT uses a customised evaluation tool that contains the above considerations and responses to obtain a score. This score is then used to prioritise competing projects so that Council can make decisions related to the allocation of scarce resources.

3.3.1.5 Summary - Prioritisation

The ultimate decision on prioritisation of capital programs, services and rationalising either assets or services rests with Council as the community's elected representatives.

Decisions on how best to balance financial sustainability with community needs and desires are made following extensive community consultation, combined with the engineering and finance view formed though the use of sophisticated tools and evaluation criteria.

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.

In order to explain why approval for a SV is required, we outline our current revenue and expense components, and the constraints and challenges that prevent us from being able to generate the funds required to close the asset gap. This section also outlines potential opportunities for new revenue, further business improvement and alternative financing options.

Our response shows how we have come to the decision that a Special Variation is the most appropriate option to meet Council's immediate need, and is proposed after all a full consideration of alternative options.

This section encompasses:

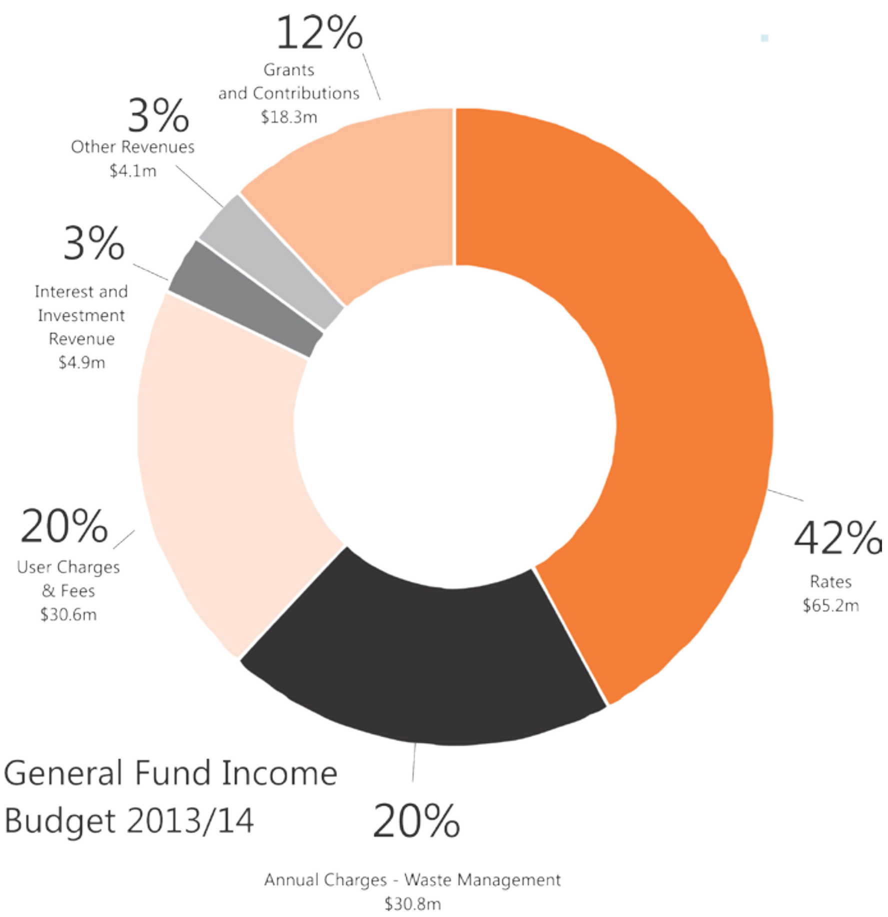
- Current Income and components and limitations
- Current Expense and components and limitations
- Issues with borrowing to fund the Asset Gap
- Property Investment Strategy
- Strategic Sourcing
- Joint Services Business
- Service Rationalisation

3.3.2.0 Current Income Components and Limitations

In the financial year 2013/14, Council's budgeted General Fund Income before capital is $154m.

Figure 11 identifies our various categories of income and the amounts and percentages relating to these categories for the 2013/14 financial year.

Figure 11: General Fund Income



Rate Income

$65.2m (or 42%) of General Fund Income is Rate revenue which is subject to the rate peg. The NSW Government through IPART determine the maximum level of annual rate increases for all NSW councils. The only way to increase revenue above the rate peg is to apply for a special rate variation (the subject of this application).

Council's ordinary rating policy is structured on "a base amount plus an ad valorem" basis for the 2013/14 fiscal year. Over the coming year, Council will undertake a detailed review of the rating structure to ensure that there is an equitable distribution among ratepayers. However, a change to the rating structure does not generate additional revenue, but simply redistributes the rating imposition across the property base.

The rate base is increased by new properties in the shire. While this is positive, growth rates in the past 5 years have been relatively low. Growth rates are forecast to grow significantly in future, but this places increased strain on infrastructure and an increased need for new infrastructure that is over and above developer contributions.

Included within Council's rate revenue is Stormwater Management revenue of $1.7m. Council can only spend this revenue on specific works related to the management of stormwater and not on its other areas of responsibility. This is regulated under Section 23A of the Local Government Act and the amount is dictated by the Stormwater Management Service Charge Guidelines.

In the absence of a Special Rate Variation, there is no capacity to generate additional revenue from rates beyond growth and the rate peg.

Annual Charges – Domestic Waste Management

All residential properties pay an annual Domestic Waste Management charge for the provision of waste collection; recycling services; and remediation of closed landfill sites and this contributes $30.8m (or 20%) of General Fund income.

Under Section 504 of the Act, the revenue from this charge is "restricted for purpose". It reimburses Council only for the cost of the providing this service. Section 504 (3) notes that "income obtained from charges for domestic waste management must be calculated so as to not exceed the reasonable cost to council of providing those services"

Every year the revenue and costs related to the Domestic Waste Management charge are subject to external audit to ensure that the charge accurately reflects the costs it is designed to cover.

There is therefore no scope to increase revenue through increasing the Domestic Waste Management charge.

User Charges and Fees

User Charges and Fees generate $30.6m and comprise 20% of General Fund Revenue. This category of income represents a user pay system and relies wholly on demand.

On an annual basis the fees and charges are subject to review (and benchmarking against external fees where applicable or material). Each year most fees and charges are increased by an average of 4-5% to cater for increases in the costs of providing these services.

Experience has shown though that most of these fees and charges are very price elastic and when fees are increased by too much, people find an alternative provider or simply stop using the service.

A clear example of this elasticity is tipping fees which account for 17% of the income in this category. Tipping fees were set higher in an attempt to recoup increased costs associated with the EPA, future remediation etc. However, this resulted in significantly lower tipping volumes and a negative net impact on tipping revenues as people went to other LGA tips or resorted to illegal dumping.

The other constraint around the fees is that many are regulated. Development application fees, Building and shop inspections, and companion animal registrations are all subject to regulated maximum fee amounts, or a regulated range of prices.

Further, some of the user charges and fees received have restrictions around the use of the revenue. For example, Council manages a number of Holiday Parks situated on Crown land and is contractually obliged to use the profits for specific purposes.

User charges and fees are also subject to external market forces not controllable by Council. Development applications have declined in recent years due to low property development activity and therefore have had a subsequent impact to Council's income.

While Council will continue to look for opportunities to implement new user fees and charges, and will consistently review and optimise the prices on existing fees, it is not deemed possible to increase fees and charges to a level required to generate the additional revenue required to fund the asset backlog.

Interest and Investment Revenue

The majority of this income (85%) relates to interest received on investments. Council currently invests cash in short term fixed rate term deposits with Approved Deposit Institutions, keeping risk low. The short terms associated with these investments is to ensure that there is always appropriate working capital. The combination of seeking low risk and short tenure loans for Council's investments impacts the interest returns that Council can achieve.

Investment Interest rates are not within Council's control. They are subject to market forces and interest rates have been declining since the global financial crisis. Recent rates achieved are well below 5%

The remaining income relates to interest imposed on overdue rates and charges. These are levied at the Ministerial reference rate which is the maximum amount chargeable. There is no opportunity to charge more interest on overdue rates and Council is actually working to reduce the level of rates outstanding from the current level of 6.29% to below 5%. This will reduce Interest Revenue.

At just 3% of Council's General Fund revenue, it is clear that there is not sufficient opportunity to generate the required additional revenue from interest.

Other Revenues

Other revenues account for a further 3% of Councils General Fund revenue base and include:

- Commercial and residential rent
- Fines
- Cemetery plots and memorials
- Miscellaneous

As noted in *Section 7*, the biggest area of opportunity related to increasing other revenues is in the area of rent and other property development activities. The strategy for this area is currently being formulated and potential revenue increases have not been quantified. Also, optimisation of the property portfolio and material increases in rent are not likely to be realised until the medium to long term and to a degree are heavily reliant on having appropriate infrastructure in place (i.e. there is a dependency on closing the gap to optimise rentals).

Grants and Contributions

Grants and contributions provide a strong revenue stream for Council. The amount of both operating and capital grants and contributions available to Council is subject to external influences and will vary each year. These revenues are either:

- General Purpose – to be used across delivery of Council services; or

- Specific Purpose – Restricted to delivery of discrete activities

The following table shows the composition of currently known grants and contributions received by Council.

Table 19: Grants and contributions received

Type	General		Specific	
	Operating	Capital	Operating	Capital
Federal Assistance Grant	✓			
Pensioner Rebates	✓			
Bushfire Prevention			✓	
Child Care Benefits			✓	
Community Initiatives			✓	
Developer Contributions				✓
Library Services			✓	
Emergency Services			✓	
Recreation Facilities				✓
Roads			✓	✓
Street Lighting			✓	
Waste and Recycling			✓	✓
Waterways Strategies			✓	

Other than the Financial Assistance Grant, the remaining grants and contributions income relates to specific activities and cannot be used for the general provision of services to the community.

Unless General Operating or Capital grants increase substantially in the future, grants do not provide a solution to the existing asset backlog. A substantial increase in the foreseeable future is unlikely given the existing pressures on the finances of other levels of government.

In recent years, due to external market forces, and the flow on effect of depressed development activity within the shire, the level of one-off developer contributions has been less than $5m per annum. Developer contributions are primarily useful for providing new infrastructure associated with the subject development. They have not, and are not expected to assist Council heavily with the existing asset backlog. Furthermore, infrastructure provided by developers has historically been left to Council to maintain, replace and upgrade in the future.

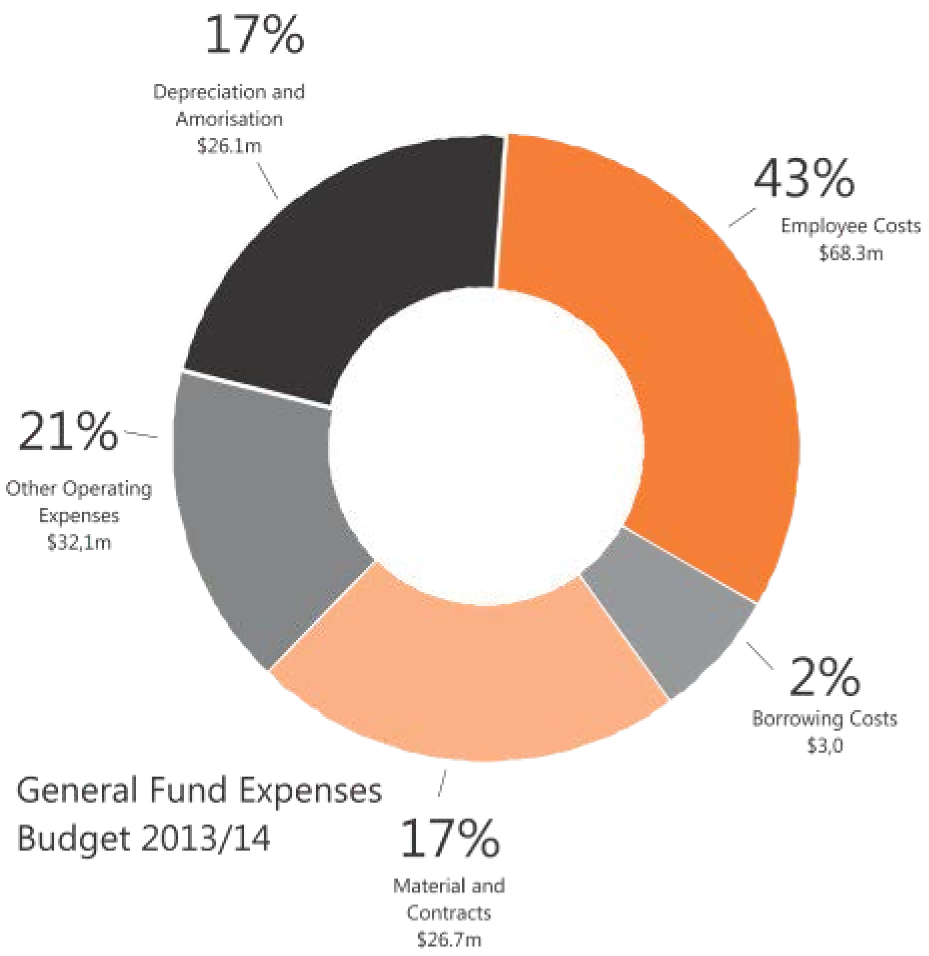
Cost shifting from other areas of government has increased the reliance on grants and contributions income. However as the responsibilities often transfer without the associated revenue, more pressure is placed on Council to deliver services using existing revenue streams.

3.3.2.1 Current Expense Components and Limitations

In the financial year 2013/14, Council's budgeted General Fund expenses before capital is $156.3m,

*Figure 12 id*entifies our various categories of expense and the amounts and percentages relating to these categories for the 2013/14 financial year.

Figure 12: General fund expenses



Employee Benefits and On-Costs

Employee costs account for 43% of total operating expenditure and include:

- Salaries
- Wages
- Superannuation
- Payroll Tax

- Training
- Workers compensation

The LTFP has factored in predicted Award increases of 3.3% for 2013/14, stepped increases to superannuation based on legislative change, and increases to workers compensation based on recent trends. These escalations and legislative changes mean that it is difficult to control employee costs without a reduction in FTE numbers.

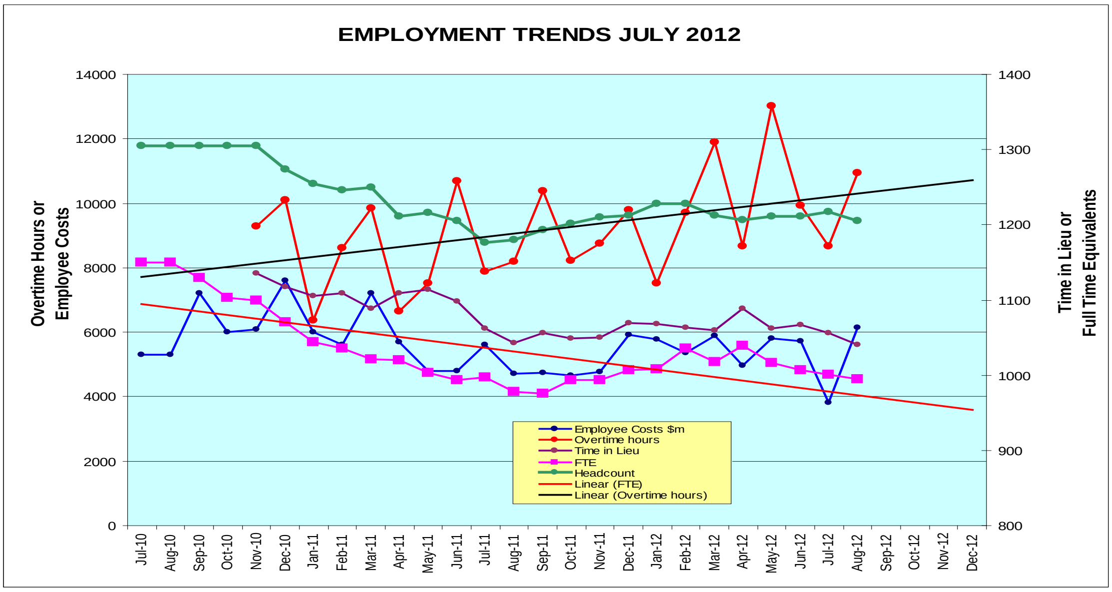
As noted in *Section 7*, Wyong Shire Council has progressively reduced FTE numbers by 8.7% since 2010 in order to offset the labour cost escalations described above.

While we will continue to examine FTE numbers and associated costs, our current view is that it will be difficult to reduce FTE numbers substantially into the future without a fundamental impact on services.

Current measurements indicate that some areas are under significant pressure and that there has already been an impact to service delivery and employee wellbeing and development as a result of FTE reductions. These measurements include:

- Increased overtime trending aligned with the progressive FTE reductions. *Figure 13* shows that there is a defined trend between reduced FTE and increased hours of overtime. The concern is that this level of overtime is not sustainable and may impact employee health and safety.

Figure 13: FTE trends



- Less time for training and development, as FTE numbers have fallen, the corresponding training cost per FTE has also dropped, indicating that there is less time for employees to increase their skills by undertaking training

There is also a profound social impact on wholesale reductions in FTE (with or without service reduction). WSC is the largest employer in the Shire and if there is significant reductions to workforce there will be a negative consequence to the economy, an increased unemployment rate and the resulting flow on impacts to families and society. This would also adversely impact future economic development plans as it would impact perceptions of Wyong shire and the willingness to invest.

Borrowing Costs

General Fund Borrowing costs only equate to $3.0m annually (2% of General Fund expenses).

These costs are based on long term loans with fixed interest rates and repayment terms. There is therefore limited opportunity to reduce borrowing costs substantially in the General Fund.

The bulk of council's borrowing costs relate to loans taken out under the Local Infrastructure Renewal Program (related to $7.2m outstanding loans). These costs are based on long term loans with fixed interest rates and repayment terms (offset by an interest subsidy).

There is little to no opportunity to reduce borrowing costs substantially in the General Fund as the loans are already subsidised.

Materials and Contracts

Materials and Contracts comprise a further $26.7m (17%) of Council's General Fund).

Council has many large contracts related to the delivery of goods and services. Some of the material contracts involve:

- Garbage collection and processing
- External equipment hire & fuel
- Information management applications
- Roads

Council has improved procurement processes in recent years and has been able to hold materials and contracts costs steady, despite external cost pressures related to the Carbon tax, industry specific inflation and growth.

Strategies to contain and reduce costs include joint purchasing contracts with Gosford and other councils (for example the "Councils On Line" IT joint purchasing contract), the use of Local Government panels, and a move toward strategic sourcing alternatives. These are explained more fully in *Section 7*.

While we will continue to improve procurement practices and apply focus to individual renewals, we consider that due to growth and external cost pressures, there is limited opportunity to realise the savings required to fund the asset gap.

Depreciation and Amortisation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life and accounts for 26.1m (17%) of the General Fund operational expenditure.

Even though this expense item has no cash consequence, Council must invest in equivalent renewal works to ensure that the assets are upheld to their optimal levels of serviceability.

Because depreciation relates to the existing asset base, there is no real opportunity to reduce this expense to realise cash savings.

The only possible saving on this line would be if revaluations show that the replacement cost has reduced, and/or the asset useful life has extended. This would reduce the annual depreciation expense and the annual spend on asset replacement. Experience with revaluations has generally shown an increase in depreciation expense, as opposed to a reduction.

Other Expenses

This expense group costs council General Fund $32.1m (21% of total costs) and includes the following costs:

- EPA Waste levy
- Electricity
- Insurance
- Telecommunications
- Tourist park management
- Bank charges
- Contributions to Town Centre Management for The Entrance, Toukley and Wyong areas

The material components of this expense category, and the difficulties in realising savings, are described below.

The *Protection of the Environment Operations Act 1997* requires licensed waste facilities in NSW to pay a contribution in respect of each tonne of waste received for disposal at the facility. Council, as operator of Buttonderry Waste Management Facility, incorporates this levy into the fees charged to customers and then remits this monthly to the EPA. This levy has been increasing well above the CPI rates and is currently charged at $93 per tonne (2012/13). This levy is forecast to cost $12.5m in 2013/14 and accounts for 39% of other expenses in the General Fund.

Council has no control over EPA costs and can only pass the costs on to end users through tipping fees. Unfortunately, we have seen an increase in illegal dumping and reduced tipping fee income resulting from the introduction of the EPA.

Electricity costs of $5.1m make up 16% of General Fund other expenses.

Council business is resource and energy intensive and as such Council has been impacted significantly by energy consumption and increases in the cost of electricity which has experienced growth well above the rate peg over the past six years. Over the past six years this expense has grown by 91%, with average growth well into the double digits

Table 20: Impact of electricity costs

General Fund Electricity Costs	2006/07 ($'m)	2007/08 ($'m)	2008/09 ($'m)	2009/10 ($'m)	2010/11 ($'m)	2011/12 ($'m)	6 Year Movement (%)
Annual Cost	2.35	2.46	2.85	3.09	4.03	4.48	**91%**

This trend of double digit growth in electricity prices is likely to continue into the future. A NSW Government Industry and Investment Department inquiry into the NSW Electricity Network and Prices stated "Electricity prices have increased by about 43% in NSW over the last three years. Prices are expected to rise by about this much again over the next three years".

Council currently has a competitive tender contracted for the supply of electricity that is due to expire in the 2013/14 financial year. Based on weighted peak and off-peak usage costs charged in this contract, the utilities escalation in the LTFP has been set at 10% for 2013/14.

Due to service delivery growth and the related increase in electricity consumption, coupled with contracted price escalations, there is limited opportunity to realise major savings in electricity.

3.3.2.2 Issues with Borrowing to Fund the Asset Gap

Internal analysis and the recent review by T-Corp indicate that our capacity to borrow substantial amounts to fund the asset gap is limited. The underlying business fundamentals at both a consolidated and a General Fund level support this view.

At 30 June 2012, on a consolidated basis, Council had $197.6m in loans outstanding and incurred $16.5m of interest costs in that year.

The majority of loans exist in the Water and Sewerage business where Council have traditionally used long term loans in order to spread the cost across the useful life of the asset.

This puts Council's Consolidated Debt Service ratio at 13.3% versus a Department of Local Government (DLG) target of 10%. While the DLG deem a debt coverage ratio of up to 15% acceptable for growth Councils, it is highly likely that there will be an ongoing need to borrow in the water and sewerage business.

The General Fund currently holds a significant amount of unrestricted cash (approximately $25m). However, based on IPART draft Water and Sewerage pricing, the water and sewerage business will continue to record cash deficits. In this case, we will implement inter-fund borrowing to avoid further external borrowings. Despite this approach it is highly likely that Water and Sewerage will need to borrow more externally, which would leave the entity highly geared before even considering borrowing to service the General Fund asset gap.

Comparison of Council's Consolidated Debt Service Ratio, and Consolidated debt as a % of revenue is very high compared to other large councils, including those councils with Water and Sewerage supply businesses (note only 2010/11 comparatives are available for the debt service ratio).

Table 21: Debt Service Ratio Comparisons

DLG - 2010/11 - Debt Service Ratio - Comparative figures of 'big' Councils > $150m annual revenue				
Council	**Net Debt Service Cost**	**Revenue from Continuing Operations**	**Result**	**Water Utility (Y/N)**
Blacktown City Council	-	205,868,000	0.00%	N
Gosford City Council	15,924,000	195,773,000	8.13%	Y
Lake Macquarie City Council	8,239,000	159,032,000	5.18%	N
Newcastle City Council	6,574,000	194,351,000	3.38%	N
Parramatta City Council	8,820,000	153,476,000	5.75%	N
Shoalhaven City Council	12,714,000	163,011,000	7.80%	N
Sutherland Shire Council	13,472,000	171,789,000	7.84%	N
Sydney, Council of the City of	-	467,988,445	0.00%	N

Wollongong City Council	1,524,000	198,724,000	0.77%	N
Wyong Shire Council	**21,161,000**	**194,454,000**	**10.88%**	**Y**

Debt as a % of Income from continuing operations - 30 June 2012	
Lake Macquarie	29%
Gosford	52%
WSC	**83%**
Average (Lac Mac + Gosford)	*41%*
Debt target (WSC) to match GCC	123,503,481
Debt target (WSC) to match LM	69,671,122
Debt target (WSC) to match average	96,587,302

Both of these comparatives and other measures indicate that as an entity, Council is highly geared and has limited capacity to borrow significantly more. Council's plan is to reduce borrowing to meet DLG targets as opposed to increase borrowings to an unacceptable level.

Specific to the General Fund, without a SV, the underlying business fundamentals suggest that further borrowing capacity may be limited. As noted in *Section 3.3* (Scenario 1 – Base Case), if no SV is granted, the General Fund is forecasting losses and cash depletion over the next 10 years. It would not be prudent to borrow while the underlying financial fundamentals were not sustainable.

Several financial Institutions did not participate in a recent loan tender for the LIRS funding (for $7.2m) on the basis of their concern with Council's current level of borrowing and the underlying performance of the General Fund.

If borrowing to the magnitude required ($19m per annum or $130m in total) was contemplated and even possible, this would increase consolidated borrowing costs by $7.8m per annum (based on 6% borrowing rate applied to the $130m), and further impact the loss position. In addition, consolidated total debt service cost (including repayments) would grow by up to $18m per annum (based on current debt service cost as a % of total borrowings of 13.97%, as at 30 June 2012), placing significant pressure on General Fund and consolidated cash-flow.

In this situation our Debt Service Ratio would grow to approximately 22% and would be considered poor by the DLG. Further, our debt as a % of revenue would grow to 137% ($197m of existing debt plus $130m of new debt divided by $238m) and the resulting gearing ratio would be significantly higher than other councils (further impacting the capacity to borrow).

Our view that the General Funds future capacity to borrow without addressing the underlying financial position was vindicated by T-Corp in their recent financial review of the General Fund. Their advice is summarised in the following statement:

- Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its cash and investment levels are forecast to be exhausted by 2016.

- This is a serious liquidity issue which Council needs to consider, develop options and remodel. Should Council consider adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense, then additional borrowing could be considered.

Borrowing to fund the asset gap does not appear to be a feasible option. As noted by T-Corp, if additional operating cash-flow can be sourced then borrowing may be possible but this will not be possible without a Special Rate Variation.

3.3.2.3 Property Investment Strategy

Optimisation and development of Council's Property portfolio represents a significant future opportunity. The strategy is currently under development but will entail:

- Improving yield on existing land holdings through development or renegotiation of existing leases.

- Selective disposal of assets which have limited opportunity or which do not meet Council's core business requirements (this must be balanced as the community owns these assets and do not want to sell community assets to address poor fundamentals in the business).

- Prudent investment in new land and developments with positive internal rates of return

Council hold 2,500 parcels of land in various categories of zoning. Many of these are zoned for community use, limiting the potential returns. The LEP 2013 review is currently on public exhibition. This may result in the rezoning of a number of Council properties and make potential returns more positive.

The opportunities associated with land management and property development have not yet been quantified and the timing of benefit realisation is not yet known. However, it is likely that significant benefits will not start flowing until the medium to long term. Most investments will not be reach a positive Net Present Value (NPV) positive for many years and there is a need to address the asset backlog now. If the asset backlog is not addressed, assets will continue to deteriorate and the lack of essential infrastructure will dilute the land management opportunity as there will be a lack of interest from developers, tenants and other partners.

In the medium to long term it is envisaged that Council's property and land development strategy may be the answer to addressing growth and provision of new infrastructure for the shire, in addition to ensuring that there is a sound and fundamental business model. However, this strategy is in its infancy and at this stage is not a viable option to address the infrastructure backlog in the short terms as required.

3.3.2.4 Strategic Sourcing

Council will continue to assess and pursue strategic sourcing options including the following:

- Outsourcing – Currently council is examining lifeguards and nursery operations for potential outsourcing or partnerships.

- Whole of life costing where the vendor supplies and maintains an asset over its life. This concept is in the early stages of analysis for roads and also S94 contributions.

- Consolidated buying where panels of suppliers would exist for purchases below a certain spend threshold to encourage competition and savings on items not traditionally tendered for.

While these may deliver some savings and efficiencies to the General Fund, it is highly unlikely that these initiatives will deliver the magnitude of savings required to close the asset gap, given the nature and composition of Council's spend (as described above in "materials and contracts" and "other" (*Section 3.3.2*). These initiatives will be used to ensure that the General Fund remains viable and capable of spending the required capital, despite the shortfall between the incremental revenue sought through this application of $78m, and the required Capital spend of $105m

3.3.2.5 Joint Services Business

The creation of a Central Coast Joint Services Business (JSB) that provides 'back office' support services including Finance, HR, IT and Plant & Fleet to Gosford and Wyong Councils and the new Central Coast Water Corporation (CCWC) is planned to commence in 2017.

An external cost benefit analysis performed by PriceWaterhouseCoopers (PWC) estimated over $100m in savings over 20 years would result from economies of scale associated with staff centralisation and information technology sharing. Further consideration of shared services in customer service and procurement are also being investigated.

The modelled savings include significant savings through joint purchasing and shared resources, economies of scale, process remediation, and the development of a joint information technology platform.

The savings noted above would be shared with Gosford City Council and are currently being re-validated. Benefits are not forecast to be realised until the medium to long term with payback forecast at around 2018 and benefits flowing beyond this time.

In the immediate future the establishment of the CCWC and the JSB will cost Wyong Council approximately $16.2m over the next four years ($6.74m of this cost will be borne by the General Fund).

While presenting a longer term benefit for Council and the General Fund, the JSB will not address the General Fund asset backlog in the short to medium term.

3.3.2.6 Service Rationalisation

Through the IP&R process, Council engages the community on its objectives and priorities and continually reviews the suite of services it provides, including what new services should be considered and which existing services may no longer be required.

Where specific services suffer from low utilisation, and/or are profoundly unprofitable, Council will make a decision to discontinue in an effort to reduce costs.

A recent example of this activity is Vacation Care. In January 2013, Council took the decision to cease the provision of all six Vacation Care services due to significant declines in enrolments and the increasing numbers of alternative providers and stricter regulatory environments. Council commenced providing this service over 25 years ago as the primary provider for Wyong Shire. Today the provision of the service costs Council over $68,000 per year due to low enrolments.

If a Special Rate Variation is not successful, service rationalisation activity will need to accelerate substantially in an attempt to fund some of the asset backlog. Given the magnitude of cost savings required though, there is likely to be a profound and immediate impact on all services that are not at the top of the community priority list or are not self funding.

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 expenses)
- 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.

In this section we discuss the impact on key performance indictors over the 10 year planning period as identified in the LTFP under the following scenarios:

- Scenario 1 – Base Case (rate peg only)
- Scenario 3 – 6.9% Special Variation

We have addressed this with regard to the following indicators:

- Local Government Code of Accounting Practice and Financial Reporting (Guidelines)
- Council's financial indicators
- IPART suggested indicators

Table 22: Recent performance measures for Council's General Fund as published in Note 13 (b)

Indicator	2010/11 Actual	2011/12 Actual	Target
Unrestricted Current Ratio	1.83	2.01	> 1.5
Debt Service Ratio	0.01	0.01	< 0.15
Rate Coverage Ratio	0.44	0.53	0.5
Rates and Annual Charges Outstanding	6.79%	5.83%	<= 5.0%
Building and Infrastructure Renewals Ratio	0.69	1.40	> 1.0

**Note Council's Consolidated Debt Service Ratio was 0.13.*

The table above demonstrates that our General Fund performance has been improving in the last two years and is directly attributed to those initiatives outlined in *Section 7* of this application. However, without a SV increase of 6.9% Council is not able to achieve the benchmark targets in the future.

3.3.3.0 Financial Reporting Indicators

Unrestricted Current Ratio

$$\text{Unrestricted Current Ratio} = \frac{\text{Current Assets – External Restrictions}}{\text{Current Liabilities – Specific Liabilities}}$$

The purpose of this ratio is to demonstrate whether there are enough available funds on hand to meet unrestricted short term obligations. A ratio of less than one is not satisfactory and would indicate that Council is living beyond its means and not financially sustainable.

This ratio has the following outcomes under:

- Scenario 1 – Base Case
  - Cash balances reduce in accordance with operations and the speed of completion of the closed landfill site remediation plan
  - The asset backlog is not addressed and assets must be rationalised so that Council can be financially sustainable and able to ensure assets are at an adequate condition in the future

- Scenario 3 – 6.9% Special Variation
  - Cash is quickly depleted and recovers slowly in outer years due to the cumulative nature of the variation on cash flows
  - The asset backlog is addressed over a longer period

Table 23: Current LTFP Unrestricted Current Ratio projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	1.40	1.35	1.12	1.02	0.97	1.03	1.1	1.16	1.26	1.36
SV 6.9%	1.17	0.92	0.64	0.41	0.31	0.35	0.54	0.98	1.47	1.96

Council, in ensuring prudent financial management, would not allow the ratio to fall below 1.0 and would prioritise expenditures and leverage off savings from the opportunities noted in Section 3.2.2 to ensure there was adequate cash to cover restricted cash balances. This measure does show the importance of gaining the full 6.9% for the full seven years in order to spend $15m a year on closing the asset gap.

As described in Section 3.3, this option compels Council to generate future productivity savings to ensure there is adequate cash available to close the gap, and explains the financial implications of the 6.9% rate increase in terms of revenue and capital spend (and sheds further light on the above comparative).

Rate Coverage Ratio

$$\text{Rate Coverage Ratio} = \frac{\text{Rates and Annual Charges}}{\text{Operating Income}}$$

The purpose of this ratio is to assess the degree of dependence upon revenues from rates and annual charges and to assess the security of Council's income.

Table 24: Current LTFP Rates Coverage Ratio projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	0.59	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
SV 6.9%	0.59	0.61	0.62	0.63	0.64	0.64	0.65	0.65	0.64	0.64

Council currently achieves greater than the benchmark target ratio of 0.5, which shows a reasonable reliance on rates income.

Many alternate forms of income are either out of Council's control such as grants, or can fluctuate with consumption such as user fees and charges. For these forms, a higher rate coverage ratio strengthens Council's future financial sustainability, providing more certainty and stability to allow Council to address the asset backlog.

As noted in *Section 3.3.2*, Council will however continue to seek opportunities to review alternate forms of income such as:

- Maximising property and investment revenue
- Optimally setting user fees and charges to respond to demand
- Applying for further grants and contributions
- Leveraging strategic sourcing opportunities
- Joint Services and Partnerships
- Disposing of non-essential assets.

Rates and Annual Charges Outstanding

$$\text{Rate and Annual Charges Outstanding Ratio} = \frac{\text{Rates and Annual Charges Outstanding}}{\text{Rates and Annual Charges Collectible}}$$

The purpose of this ratio is to assess the impact of uncollected rates and annual charges on liquidity, and the adequacy of debt recovery efforts.

As explained in *Section 5.3 and 5.4*, we have undertaken extensive reform in our approach to credit management since 2011. The improvement in the amount of outstanding rates over this period demonstrates that active debt recovery, combined with providing appropriate hardship assistance, will ensure we achieve a target of <5%.

We believe our debt recovery policy and hardship provisions will adequately support any members of our community who may suffer financial difficulties whilst still achieving the target of <5%. Therefore it is not anticipated that a variation to rates will have any impact on the rates outstanding ratio.

Table 25: Current LTFP Rates and Annual Charges Outstanding projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
SV 6.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Debt Service Ratio

$$\text{Debt Service Ratio} = \frac{\text{Debt Service Cost}}{\text{Operating Income (excluding capital)}}$$

The purpose of this ratio is to assess the impact of loan principal and interest repayment on the discretionary revenue of Council.

Less than 2% of our debt is General Fund related. The majority of our current fixed rate debt (98.7%) is held as a liability within the Water Supply Authority.

The General Fund loans are associated with capital works within our roads program, holiday park enterprises and surf clubs and we have recently taken the opportunity to reduce borrowing costs through leveraging Local Infrastructure Renewal Scheme (LIRS) interest rate subsidies.

As explained in the LTFP, an upcoming review of our debt profile will incorporate a cost benefit analysis with a view to extinguish existing loans and/or extending loan durations to reduce borrowing costs.

When developing the debt management policy over the coming year, Council will also investigate the possibility of inter-fund borrowing before seeking external debt in the future. Given that the majority of debt is held in the Water Supply Authority, Council's General Fund may be in a position to internally loan to the Water Supply Authority and receive interest income accordingly.

An alternative option to fund the asset backlog through borrowings is explained in *Section 3.3.2.2*, which details the inability for Council to borrow, reinforced by a recent assessment by NSW Treasury Corporation.

Council's previous practice has been to borrow funds to deliver large infrastructure works. However, we envision no further external borrowings at this time as it is not regarded as financially sustainable.

Therefore the debt service ratio for General Fund shall improve toward a ratio of zero by 2024/25 when all existing General Fund loans mature.

Table 26: Current LTFP Debt Service Ratio projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.00
SV 6.9%	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.00

Building and Infrastructure Renewals Ratio

$$\text{Building and Infrastructure Renewals Ratio} = \frac{\text{Asset Renewal (Building and Infrastructure)}}{\text{Depreciation + Amortisation + Impairment}}$$

The purpose of this ratio is to assess the rate at which Building and Infrastructure assets are being renewed against the rate at which they are depreciating.

As reported in our financial statements (which are in accordance with the DLG's Local Government Code of Accounting Practice and Financial Reporting (Code*)* this ratio does not include all asset classes. For the General Fund building and infrastructure includes the following asset classes:

- Buildings
- Roads
- Waste

Council's AMS prioritises asset renewals before closing the gap asset upgrades and new works and this is reflected in both LTFP scenarios. Interestingly, the renewal ratio appears lower under the 6.9% SV scenario than the base case scenario. This is because capital spend is higher under the 6.9% SV scenario and consequently the asset base and resulting depreciation also grows. In both cases the aims of the asset management strategy of a renewals ratio of >1 are satisfied as renewals are the primary priority.

Table 27: Current LTFP Building and Infrastructure Renewals Ratio projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	1.11	1.12	1.18	1.14	1.27	1.21	1.15	1.27	1.30	1.41
SV 6.9%	1.11	1.10	1.14	1.08	1.17	1.10	1.03	1.11	1.14	1.23

3.3.3.1 Council Specific Indicators

Asset Sustainability Ratio

$$\text{Asset Sustainability Ratio} = \frac{\text{Asset Renewals + Closing the Gap Capital Expenditure}}{\text{Depreciation + Amortisation + Impairment}}$$

The purpose of this ratio is to assess the rate at which total assets are being renewed against the rate at which they are depreciating to ensure investment into existing assets is adequate.

This ratio also provides further measurement in assessing the alignment between financial planning and asset management.

Table 28: Current LTFP Asset Sustainability Ratio projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	1.00	0.98	1.01	0.96	1.02	1.00	0.95	1.05	1.04	1.04
SV 6.9%	1.65	1.53	1.53	1.44	1.51	1.43	1.36	1.31	1.27	1.26

As expected the additional capital spent on closing the asset gap under the 6.9% SV scenario substantially improves and maintains the Asset Sustainability Ratio when compared to the base case scenario.

3.3.3.2 IPART Suggested Indicators

Broad Liabilities Ratio

$$\text{Broad Liabilities Ratio} = \frac{\text{Total Debt + Infrastructure Backlog}}{\text{Operating Income (excluding capital)}}$$

The purpose of this ratio is to assess the ability to fund liabilities associated with delivering asset based services.

Under Scenario 1, with only a rate peg increase, this ratio is consistently negative as Council does not have the revenue generating capacity to raise funds required to address the current infrastructure backlog. Only a SV provides acceptable broad liabilities ratios. As can be seen in the table, under the 6.9% SV, the broad liabilities ratio improves year on year while the base case is profoundly negative.

The reason the 2013/14 6.9% SV ratio looks high is because of the very slim profit in that year.

Table 29: Current LTFP Broad Liabilities Ratio projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	-59.71	-48.67	-50.59	-35.14	-45.68	-44.41	-43.19	-33.36	-44.54	-45.10
SV 6.9%	28298.86	253.17	36.05	20.03	7.92	4.05	1.90	0.81	0.03	0.00

The table above assumes that the asset backlog will be addressed via funding of $15m per year for the first seven years with the balance of $25m to be spent in years eight and nine from funding raised via initiatives detailed in *Sections 3.3.2*.

Operating Balance Ratio

$$\text{Operating Balance Ratio} = \frac{\text{Net Operating Result (excluding capital)}}{\text{Operating Income (excluding capital)}}$$

The purpose of this ratio is to assess profitability (and to a degree, financial sustainability).

As detailed in Parts 2 and 4 of *SP-2017*, Council's history of operating losses is not sustainable and has been the primary factor leading to the shortfall in asset funding over many years.

Table 30: Current LTFP Operating Balance Ratio projections

Scenario	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Base Case	-1.50%	-1.77%	-1.64%	-2.27%	-1.68%	-1.67%	-1.65%	-2.05%	-1.47%	-1.39%
SV 6.9%	0.00%	0.26%	1.48%	2.10%	4.00%	5.45%	7.01%	6.70%	7.68%	8.20%

The above table represents General Fund ratios and confirms that a rate peg increase alone is insufficient to sustain operating activities, let alone provide the cash flows needed to address the asset backlog.

Although Council has improved the General Fund operating result over the last few years and had an operating profit in 2011/12 (the first after many years of subsequent losses), the projected Base Case scenario results in the current LTFP reverting back to ongoing losses.

The main reason for this is cost shifting from other levels of Government. Council will be impacted by the cessation of specific purpose operating grants related to estuary management from 2013/14. Although the operating income discontinues, Council still incurs operating costs amounting to $3.2m to ensure that lakes and coastal areas are maintained at a level that the community considers acceptable at the same time ensuring legislative compliance.

Under the 6.9% SV option the operating balance ratio continues to improve as revenue increases drive the profit while expenses remain stable.

3.4 Summary of Section 3

We have a detailed level of information on our community's collective aspirations, priorities and service expectations which are reflected in our Strategic Plan 2013-2017, and which we are not able to adequately fund without additional revenue.

The situation regarding our infrastructure funding backlog has arisen over many years and for reasons common to many councils and without timely attention will compound in both financial and social impacts.

We have already undertaken wide ranging reforms to improve our financial sustainability. While we continue to pursue all opportunities for additional savings and increased revenue, we expect these to represent smaller amounts and be realised over a longer timeframe.

Our capacity to secure additional loan funding to address the backlog is severely limited due to liquidity issues raised in independent assessments of our financial situation, recently confirmed by an external review conducted by TCorp.

With our options limited, and our asset backlog representing a serious risk, we can foresee no practical alternative than a Special Variation to generate the required $130m in a reliable and timely manner.

We therefore propose to increase our rates by 6.9% annually, with the full cumulative rate increase for all seven years to be permanently retained in the revenue base to assist with financial sustainability beyond this term. Anything less than this will not achieve a satisfactory outcome for the community.

Without a Special Variation to fund the infrastructure backlog, our most responsible course of action will be to commence a combined program of reduced capital expenditure and asset rationalisation. The resulting service reductions would not align with our community's needs and expectations, and would have direct and ongoing social and quality of life impacts.

The Special Variation impacts favourably on a range of indicators. Without a Special Variation, we will not be able to achieve our target ratios, as benchmarked by the DLG.

Appendix:
1 – Wyong Shire Profile
2 – Draft Wyong Shire Council Strategic Plan 2013-2017
4 – TCorp Financial Assessment and Benchmarking Report, September 2012
6 – Shared Services with Gosford
9 – Council Report – 27 February 2013
11 – Audited Financial Statement Extracts 2009/10, 2010/11, 2011/12
12 – Council Report – 23 November 2011
13 – Council Report – 24 October 2012
14 – Council Report – 12 December 2012
15 – Capex Reconciliation 2013/14 to SS7
16 – Wyong Regional Chronicle Article, February 2013
17 – Group 7 Comparative Data Analysis 2010/11
18 – DLG Annual Financial Review
19 – Allan Inquiry 2006
20 – Fiscal Star Report
21 – Audit Risk Management Committee Report
22 – Asset RAP Tool
23 – Service Delivery Review Report
24 – Current Organisation Structure 2013
45 – Q2 Report 2012/13
46 – Capital Works Program Based on SV Options
49 – Depreciation vs renewal analysis
50 – Section 3 Supporting Pictures

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.

4.0 Overview

Wyong Shire Council can demonstrate that it has extensively engaged with the community on the need and proposed considerations for a Special Variation during the past 12 months. This consultation was undertaken with a phased engagement strategy, which included budget and operational consideration and impacts for the community's preferences and their valued services throughout each stage of the engagement.

Council undertook research into the consultation strategies it would use, including best practice examples from other council's, DLG guidelines and the IPART fact sheets.

Council's Community Engagement Framework, *EngageMe (Appendix 2)* that builds on best practices from the International Association for Public Participation (IAP2), was used to plan and undertake the engagement activities

In this section we demonstrate that:

- A high number of community members have participated directly in the engagement process over the three stages of this project, as well as previous council planning processes such as the Community Strategic Plan

- The methods of consultation chosen were relevant and effective for the Wyong Shire Community

- Council undertook additional consultation as a result of community feedback

- The information provided to the community was transparent and in line with the DLG's Guidelines and IPART advice for the consultation process, including a mail out of an 8 page information booklet to almost 60,000 people

- The information clearly set out the proposed rate levels with and without the special variation. Full details of the seven year impact on a number of general rate examples were provided throughout Stages 2 and 3 of the engagement process.

- The community is aware of the need for, and the extent of, the proposed rate increase and the proposed variations

- The community's input has been obtained on which assets and services they wish to see retained, prioritised or improved

- The community has strongly driven the final decision on the proposed revenue path, including the amount and duration of a Special Variation Rate

- There is a level of community support for a Special Variation Rate above the Rate Peg over seven years.

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.

The decision to undertake a major community engagement exercise as part of the development of the Draft WSC SP 2013-2017 was made by the Council in November 2011.

This consultation was a follow on to the significant amount of community consultation Council carried out in previous years through the Community Strategic Plan and other key initiatives such as: Quality of Life Survey, telephone and online customer satisfaction and reputation surveys, Youth Engagement Strategy, Community Plan, Learning Communities Strategy, Community Facilities Review and On-Road Bicycle and Shared Pathways Strategy.

The purpose of this engagement was to discuss with the community the issues facing Council of financial sustainability of the organisation, explain the dilemma of this and bringing our assets up to the satisfactory standard that the community needs and expects, to reduce the risk to Council and the community of these assets failing. We also needed to determine if the community's priorities were as they had been from previous consultation to ensure Council's service levels were aligned.

The community engagement strategy, entitled '*Your Place. Your Say. Your Future',* was undertaken between May 2012 and February 2013, the strategy included objectives and key messages and three distinct stages of consultation. Due to the Council elections held in September 2012, no community consultation activity was undertaken between July and September 2012.

Key objectives overall were to:

- Ensure there was a consultative, deliberative process of community engagement for our community.
- A phased approach to community engagement in order to ensure the community had opportunity to understand the issue as well as provide informed feedback.
- Ensure that we undertook an outreach approach which focused on a broad range of events and activities to ensure that hard to reach communities were engaged
- An approach that was cost effective and utilised existing channels of engagement, connections, activities and events.

4.1.0 Engagement Strategy Overview

May – June 2012	October - December 2012	January – February 2013
STAGE ONE	**STAGE TWO**	**STAGE THREE**
Understand values, priorities and service levels	**Understand the issue and willingness to pay**	**Willingness to pay and provision of options**
COMMITMENTS To provide information about Council's financial plan and the breadth of Council services To build relationships through conversation To understand what the community most values, and how that relates to the services Council provides.	**COMMITMENTS** To explain how your information from Phase One was used to develop 3 options for future service levels. To review the options and explain the likely impact on the community from each one. To get direction on the community's willingness and capacity to pay for each of the options.	**COMMITMENTS** To provide more time and information for the community to respond. To ensure we understand your capacity to pay To ensure you know all the facts about Council's current, and future, financial situation. To explain how assets are tied to services. To get direction on the community's willingness and and capacity to pay for each of the options.
STRATEGIES Inform Educate Consult Involve	**STRATEGIES** Inform Educate Consult	**STRATEGIES** Inform Educate Consult

We will look at our business and find solutions and options

We focused on consultation with staff and reviewed results to align the community values with service levels We worked with a community Deliberative Working Group to test the information and work through funding options	We focused on providing the community with information about the issues facing Council and how we developed the three options proposed. We consulted on these options to increase their general ordinary rates: rate peg, 9.5% and 12.5%.	We listened to what was said and we provided more detail and time. We removed the 12.5% option. We provided the community with three options to increase their general ordinary rates: rate peg, 9.5% or somewhere in between.

Review service levels → **Develop funding options** → **Propose a solution**

4.1.1 Summary

The overall engagement process was extensive and raised nearly 8,800 responses received through Stages 1 to 3. In addition, previous consultation feedback, undertaken in preceding years, was also considered which had more than 4,000 responses. When these responses are considered collectively it identifies that:

- There is an understanding by the community of the need to improve assets and the services they provide

- Support for a rate increase to achieve that.

Details of the engagement results, stakeholders engaged, information delivered and the key messages provided are set out in *Section 4.2*.

4.1.2 Community Engagement Process and Results of Each Stage

As part of creating a more financially sustainable Council, Council resolved in November 2011 to commence consultation with the community on their priorities, desired levels of service and willingness to pay. This consultation was a follow on to the significant amount of community consultation Council carried out in previous years through the Community Strategic Plan and other key initiatives such as: Quality of Life Survey, telephone and online customer satisfaction and reputation surveys, Youth Engagement Strategy, Community Plan, Learning Communities Strategy, Community Facilities Review and On-Road Bicycle and Shared Pathways Strategy.

In preparing the Community Strategic Plan in 2009, Council undertook extensive and in depth community consultations in 2007 and 2008, where more than 3,500 residents participated in various forms of consultation to identify the vision for the Shire and what were the issues important for our community.

Following Council's decision in November 2011, the Service Standards Review (SSR) project commenced. Using the recently adopted "Engage Me" framework, a community engagement plan was developed and the engagement process was branded 'Your Place, Your Say, Your Future' and was designed to inform and connect with the community.

There were a number of stages in this consultation process:

- Stage 1 focused on the values, service levels and priorities for the community.
  - Stage 1a focused on consultation with staff to look at aligning the community values from Stage 1 and other consultation with factors that staff needed to consider.
  - Stage 1b focused on an external Deliberative Working Group to test the information and work through the funding options.

- Stage 2 focused on providing the community with three options to increase their general ordinary rates: rate peg, 9.5% and 12.5%.

- Stage 3 focused on providing the community with three options to increase their general ordinary rates: rate peg, 9.5% or somewhere in between.

Stage 1 Community Engagement: Values, Service Levels and Priorities

The first stage of SSR consultation was undertaken in May 2012 with 184 responses received via community workshops and an online survey. The engagement strategies used are outlined below:

Table 31: Stage 1 engagement strategies

'Engage Me' spectrum	Description	Engagement modes
Inform	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	• Fact sheets • Paid advertising-Radio and print media • Mayor's column • Emails to community groups and associations • 1300 postcards handed out at railway stations, libraries, child care centres and events. • 50 posters at community facilities and Council • Council's web-site and social media • Council staff word of mouth
Connect	To obtain public feedback on analysis, alternatives and/or decisions.	• Reputation survey 2010, 500 participants • Omnibus surveys 2010, 153 participants • Omnibus surveys 2012, 415 participants • Online survey 2012, 112 participants
Connect	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	• 3 community workshops, 37 participants • 1 staff who are residents workshop, 35 participants •

Council did not consider it appropriate to send a mail-out to all ratepayers at this stage of engagement, mainly due to the cost that would involve. Extensive media coverage and handing out information at railway stations and other community based locations were used to try and reach the high number of Shire residents who commute to Sydney each day for employment. Council's web site and social media have shown increasing use by residents and are a cost-effective way of reaching a wide range of residents, particularly those in younger age groups who are normally more difficult to engage.

The demographics of the 184 residents who participated in Council's Online Survey and the 4 workshops were:

Table 32: Stage 1 demographics

Age 18-24	5
Age 25-34	17
Age 35-49	63
Age 50-64	65
Age 65+	33
Not specified	1

Male	84
Female	99
Not specified	1
Number of suburbs represented	38/68

Results of Stage 1

From those workshops the community told us what they valued the most:

- Ease of access to services
- Quality/affordable/reliable services
- Good governance, efficiency, equity in provision of services
- Sustainability - both environmental and financial
- Services which provide community benefit and promote community spirit.

What the community told us in general terms:

- Shire residents overwhelmingly love their Shire and feel it is a good place to live
- Strong preference for Council to be financially sustainable
- General preference among residents for maintaining and protecting the bushland, coastline, lakes and the estuary within the Shire
- Strong support for cycle-ways, sports and recreation facilities
- Strong preference for sustainability
- Preference for libraries and community centres/ facilities that help promote community spirit
- Consistently strong preference for high quality roads and drainage
- Strongly favour generation of local employment opportunities and development of tourism
- Low to medium satisfaction with the overall levels of service provided.

Also highlighted were the relative importance and satisfaction with current level of service:

- High: Roads and drainage; Governance.
- Medium: Environment; Community recreation; Community education; Waste; Economic & property development.
- Low: Regulatory and compliance.

Stage 1 engagement was the starting point for levels of service planning. At this stage, neither the cost of delivering the service nor Council's capacity to provide that level of service was being factored into the discussions and analysis from the community. In stage 1 Council achieved its objectives of:

1 Raised community awareness of the issues

2 Obtain some preliminary feedback on relevant community attitudes.

Based on the community response to Stage 1 and using data from previous community engagement, significant work was undertaken with Service Unit Managers to understand what we know about community needs and our services and incorporate that with the information in Council's Asset Management system.

This information, along with the values identified by the community, helped identify the high level priority areas for increased focus and what was needed to bring assets up to a satisfactory standard in line with community expectations, quality asset management and public safety standards. Staff then developed a number of funding options that would be required to meet the community's expected service levels in future years.

Stage 1 – Deliberative Working Group

Part of the Engagement Strategy identified the need to involve a number of community members to test the scenarios developed by staff. Recruitment for a Deliberative Working Group (DWG) was undertaken in September 2012 and membership was sourced from Council's Resident e-Panel, 14 community members volunteered their time and they represented a mix of gender and age groups. In October 2012, two facilitated discussions on these scenarios were undertaken with the DWG and Council staff. Members were able discuss and test the scenarios and provide a preference for the most suitable.

Results of the Deliberative Working Group

The DWG was not a decision making body. Its role was to provide thoughtful and informed input, to assist Council finalise the funding options that it would take out to the broader community and to test the information provided by Council. The DWG also provided input as to the draft option they preferred, using criteria that were developed during the sessions, which focused on:

- Likely impact on the community of the various options
- Advantages and disadvantages of each
- Areas needing further consideration by Council
- Things Council may have missed, ways to improve the options
- The validity of assumptions underlying each of the funding options.

The results were:

- 12 of the 14 DWG members identified Option 2 (9.5%/year over seven years) as the preferred option; citing reasons such as fairness and equity, affordability, outcomes are predictable, smallest cost for maximum benefit to most, best outlook for Shire without too much pain, greatest cost/benefit.
- 2 of the 14 DWG members identified Option 3 (12.5%/year over seven years) as the preferred option; citing reasons such as most forward thinking, positive entrepreneurial.
- There was no support for Option 1 (rate peg only) as the preferred option.

- 10 of the 14 members identified Option 1 as the least preferred option; citing reasons such as no benefit to community if asset gap widens, additional future costs, unsustainable in the long term, thinking small, negative attitude to progress, doesn't meet community needs.

- The remaining 4 members identified option 3 as the least preferred option.

Overall, Option 2 was seen as the best option for the community. Because of the small size of the group, this was not used as a basis for any decision on future funding options, particularly a Special Rate Variation. However, the level of review and testing of the three Options provided confidence that no significant issues had been missed and that Council could use these Scenarios for further detailed community consultation.

At its Ordinary Meeting of 24 October 2012, Council considered the results of Stage 1 of the Service Standards Review and resolved to proceed with extensive community engagement in November and December 2012 on the three Options for Stage 2.

Stage 2 – Community Engagement – Three Options: Rate Peg; 9.5% Or 12.5%

The Stage 2 community consultation occurred in November and December 2012 and was designed to consult with the broader community to gain an indication of the their willingness to pay for each of the proposed funding options and service levels. This stage of engagement provided information about the financial and asset funding issues including:

- Council's previous financial performance and forecast future performance

- Council's efforts to find substantial savings from within the organisation and maintain service levels

- The amount of funding needed to restore important assets to a satisfactory condition

- The three funding options developed to address the asset gap

- The effect of each funding option on the asset gap and Council's financial sustainability

- The additional cost of each funding option to ratepayers.

The three final options used in the Stage 2 community consultation were:

<u>Option 1 - No additional rate income above the Rate Peg</u>
Council explained to the community that under this option:

- Rate increases are maintained at the annual amount approved by IPART, usually around 3%.

- The level of proposed spending on asset renewals set out in the Long Term Financial Strategy is not affordable and there would have to be cuts to the proposed capital expenditure and/or cuts to services.

- The asset gap would not close and would actually get worse, asset maintenance costs would increase and future generations will have to meet the increased asset renewal cost.

- There would be no capacity to fund work on natural assets and no significant new asset works.

<u>Option 2 – Rate Increase of 9.5% each year over seven years</u>
Council explained to the community that under this option:

- There is an increase of 9.5% in General Rates (including an assumed rate peg of 3%) each year for seven years. This increase would remain permanently in Council's rate base and after seven years the increases would revert to the normal rate peg amount.

- This option properly funding the Long Term Financial Plan, so the seven year time frame is consistent with that plan. Seven years is also the maximum period for a Special Rate Variation approved by IPART, thereby minimising the annual cost increase.

- Asset conditions will improve significantly in this time and there would then be a substantial saving in annual asset maintenance costs of approximately $3m per annum. There is limited scope for spending on new assets.

<u>Option 3 – Rate increase of 12.5% each year over seven years</u>
Council explained to the community that under this option:
- There is an increase of 12.5% in General Rates (including an assumed rate peg of 3%) each year for seven years.

- It also closes the asset gap over seven years, but allows an additional $5m per year that could be spent on new assets.

The Stage 2 consultation was extensive and used the following methods to make the community aware that Council was seeking their input on this important issue:

Table 33: Stage 2 engagement strategies

'Engage Me' spectrum	Description	Engagement modes
Inform	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	**Local Radio and Newspapers** • 3 articles in Shire-Wide News • 5 media releases in local papers and radio stations • 6 paid advertisements in Central Coast Express/Advocate, Wyong Regional Chronicle and Central Coast Grandstand - over 300,000 exposures of these ads to local residents • 4 page supplement in the Express/Advocate on 16/11/12 – 58,000 circulation • 303 paid radio advertising spots on 2GO, SeaFM, StarFM • 20 community service announcements on 2GO • 10 x 15 second live reads just before news on SeaFM • 18 radio news items and 1 television news story on NBN • News articles in Express Advocate, Wyong Regional Chronicle and Lakes Mail.
		Online presence • Council's web-site uploaded with relevant information - 2,684 hits on council's web site • Council's on-line survey via web site engagement hub • Use of social media, Facebook and Twitter - 1,013 Facebook posts, 10 Twitter posts • Advertising on Business Insider web site, linking to Council's online survey. During the campaign the ads were delivered

'Engage Me' spectrum	Description	Engagement modes
		4,776 times and the web site had 2,148 visits.
		Telephone • Customer Contact staff promoted through "call wrap" process – approximately 14,000 callers
		Face to face • Information booklet produced, 2,900 hard copies distributed via libraries, child care centres, other Council facilities, Councillors, Council staff, local residents, shopping centre displays and commuters at railway stations • Manned displays at shopping centres – 18 hours total, 96 contacts • Customer Contact and Library staff actively promoted the process during each contact with the public.
		Direct mail • Electronic copy of the information booklet sent to all members of the Library Services database and Child Care data base - 3,200 contacts • Electronic copy of the information booklet sent to all ratepayers with an email address - 4,800 contacts • Electronic copies of the information booklet sent to Councillors, resident e-panel members, Precinct Committees, local community groups, progress associations and committees for distribution to network contacts • Copy of information booklet posted to 12,700 non-resident ratepayers. **Passive notification** • Posters in Council facilities and outlying areas.

Detailed information about the asset funding issues, the three funding options and the additional cost to ratepayers of each option was conveyed to the community through:

Table 34: Stage 2 engagement strategies continued

'Engage Me' spectrum	Description	Engagement modes

Connect	To obtain public feedback on analysis, alternatives and/or decisions.	• Direct discussions with staff • A random telephone survey of residents conducted by an external independent provider – 400 responses • An online survey – 876 responses • Reply paid hard copy voting form (or drop off at a Council centre) – 469 responses (17 did not choose an option). • Submissions from individuals or organizations – 44 responses
Engage	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	• 3 community workshops, 23 participants • 1 precinct committee workshop, 26 participants • 1 staff workshop, 12 participants • (Note: voting in workshops was via hand held devices)

The information clearly sets out the impact of each option on a number of typical rate levels, including the average general rate across the Shire.

The engagement process started on 14 November 2012 and was scheduled to cease on 2 December 2012. Due to the increased level of response in the last week and to allow extra time for postal replies to be received, the closing date for responses was extended to 4 December 2012.

Council did not consider it appropriate to send a mail-out to all ratepayers at this stage of engagement, mainly due to the cost that would involve. All non-resident ratepayers were mailed an information booklet in case they were not advised via the other methods. Extensive media coverage and handing out information at railway stations and other community based locations were again used to try and reach the high number of Shire residents who commute to Sydney each day for employment.

Council's web site and social media have shown increasing use by residents and are a cost-effective way of reaching a wide range of residents, particularly those in younger age groups who are normally more difficult to engage. In addition to Stage 1 Engagement methods, staff were available at the three largest local shopping centres to try and engage more residents and provide face to face information. An additional workshop was scheduled for Council's Precinct Committees to try and gather a higher level of response from members and request that they distribute to their networks.

The demographic spread of the respondents was:

Table 35: Stage 2 demographics

Age 18-24	41	2%
Age 25-34	170	9%
Age 35-44	263	15%
Age 45-54	346	20%
Age 55- 64	451	26%
Age 65-74	372	21%
Age 75+	126	7%
Male	883	50%
Female	867	49%
Not specified	20	1%
Number of suburbs represented	55/68	

Results of Stage 2

The total number of voting responses for Stage 2 was 1,770 as set out in the table below.

Table 36: Stage 2 results

Results	Option 1 – Rate Peg	Option 2 – 9.5%	Option 3 – 12.5%
Workshops	17% (7)	64% (27)	19% (8)
Phone Survey	51% (206)	41% (164)	8% (30)
Online Survey	66% (580)	21% (187)	13% (109)
Return Mail Survey	68% (307)	23% (106)	9% (39)

- General preference for Option 1 except in workshops
- Gender composition balanced for mail-ins; otherwise skewed towards males (workshops, online) or females (telephone)
- Suburbs generally well-represented in all modes
- Age groups skewed towards 45+ age groups in all modes
- Degree of engagement influences preference for option (e.g. higher preference for rate rise in workshops)

Workshops - showed a high level of support (83%) for a rate increase. This is directly related to the opportunity for attendees at the workshops to discuss issues with staff and gain a better understanding of the options before making a decision. At the start of each workshop there were attendees who clearly stated that they would not support a rate increase above the rate peg and subsequently supported Option 2 when they better understood the issues.

Telephone Survey - Option 1 is the most preferred scenario (51%), but there is a significant proportion of the population (49%) that would accept a rate variation in order to maintain or improve assets. During the phone survey, respondents were asked an additional question:

"If Council was to determine that it should make an application to IPART for a special rate variation, on a scale of 1 to 5 where 1 means not at all supportive and 5 means very supportive, how supportive would you be for Council to seek the following options?" .

In answer to this question, 54% of respondents were 'somewhat supportive' of Wyong Shire Council seeking a special rate variation in order to maintain assets, as outlined in Option 2.

Online and Mail-in Survey – received high level of support for Option 1 from the online (66%) and mail-in survey (68%) which is significantly different to that of the workshops and telephone survey. It is reasonable to conclude that these responses are largely due to the decreased level of understanding of the asset gap and the funding options, compared to those who attended a workshop or got to speak to someone. Together with the fact that in these types of situations the highest level of response is generally against significant change.

Other submissions - 44 separate submissions were received from community members and organisations that were generally in support of no rate increase.

Overall, it was concluded that the results from the community workshops and telephone survey give the best indication of how the community will respond when properly informed. A statistical analysis of the Stage 2 results by t-cAM Consulting has identified that the online survey in Stage 2 also provided a valuable insight in to community attitudes- 67% of the respondents were willing to entertain a rate increase (either Option 2 or Option 3) if they could be assured of Council's efficiency and effectiveness in expending its funds. This is explored further in *Section 4.2*.

Council achieved its objective for Stage 2 of:

- To explain how your information from Phase One was used to develop 3 options for future service levels
- To review the options and explain the likely impact on the community from each one
- To get direction on the community's willingness and capacity to pay for each of the options.

Previous phone surveys conducted by Council have also asked questions about willingness to pay for improved service delivery. While the options presented in these surveys were not exactly the same as the current options, it supports the view that an informed community is more likely to support Council's decision to increase rates. We consider that the response to these surveys is not inconsistent with the support that we found in the community consultation. The following results have been gathered previously:

Table 37: Omnibus Survey 2010

Survey question	Weekly amt $1-$2	Weekly amt $50c - $1	Weekly amt $25c - $50c	Weekly amt Nothing at all	Total
Willingness to pay for: Public works program	27%	25%	18%	30%	100%
Willingness to pay for: Environmental works program	23%	24%	23%	30%	100%
Willingness to pay for: Community Development program	19%	24%	27%	31%	100%

Table 38: Omnibus Survey 2012

Survey question	Mean Rating	Weekly amt $1-$2	Weekly amt $50c - $1	Weekly amt $25c - $50c	Nothing at all	Don't know / Refused	Total (Weekly amt)
Community willingness to pay for:							
Public works	2.6	27.4%	18.4%	9.1%	39.0%	6.1%	100%
Environmental works	2.9	20.1%	17.4%	10.9%	44.8%	6.8%	100%
Community Development	2.9	15.5%	19.0%	15.4%	42.2%	8.0%	100%

Community Concerns

Many of the online and hard copy voting responses also contained comments on the proposed options and other issues. Combined with the letters and submissions received, the issues raised can be broadly summarised as:

- The size and affordability of the proposed increases
- Uncertainty about where the money will be spent
- Uncertainty about which services are at risk if Option 1 is adopted
- Council's efficiency and financial management
- Current lack of services
- Lack of adequate notification to all ratepayers and residents
- The short time frame for the consultation.

The results of the Stage 2 consultation were reported to Council on 12 December 2012. At that meeting Council considered the concerns raised by the community and resolved that further community consultation was to be undertaken during January/February 2013.

In light of the community response to option 3 (12.5% increase per year for seven years) Council decided to remove that option all together. Council then endorsed that the next round of engagement was to specifically focus on two remaining options, the community's willingness to pay and their priorities.

To address the willingness to pay concern, an alternate option was added, this was a rate increase in between the rate cap and 9.5%. If the respondent understood the issue but felt that 9.5% was too much they could then support this option.

This introduced a fourth option for the community. The options then proposed for the Stage 3 engagement were:

- Option 1: No rate increase above the rate cap
- Option 2: A rate increase of 9.5% per year for seven years
- Option 4: A rate increase between Option 1 and 2.

Council decided to keep open the option of a Special Rate Variation and by complying with the Independent Pricing and Regulatory Tribunal process timeframes.

This involved advising IPART by 14 December 2012 that Council intended to apply for a Special Rate Variation application in 2013/14 of up to 9.5% (including the capped rate increase approved by the NSW Government (which is 3.4% in 2013/14), each year for seven years from 2013/14 under S508A of the Local Government Act.

Council's intent was to consider the response from the Stage 3 consultation before deciding on 27 February 2013 whether to proceed with an SRV application.

Stage 3 Engagement – the final options: rate peg, 9.5% or in between

The Stage 3 engagement process commenced on 18 January 2013 and ran until 15 February 2013, providing four working weeks for the community to be informed and respond to the funding options Council provided.

An updated engagement strategy for Stage 3 was prepared which took into account the community's feedback from Stage 2 and would:

- Provide more detail on the savings and efficiency gains Council has achieved to date
- Provide more detail on which services would be affected under Option 1
- Provide more detail on what assets would be improved under Option 2
- Directly target a higher response rate from the under 45 year old age group
- Ensure information and voting form was mailed directly to every ratepayer on the rates database.

An intensive communications campaign was undertaken to achieve increased community awareness of the process and provide a satisfactory level of understanding of what is a complex problem. For Stage 3, additional information was needed to explain why Council was undertaking the additional round of consultation and why those who had already voted would need to vote again.

Stage 3 consultation included the following options:

<u>Option 1 - No additional rate income above the Rate Peg</u>
Council advised the community that under this option:

- Rate increases are maintained at the annual amount approved by IPART, usually around 3%.

- The level of proposed spending on asset renewals set out in the Long Term Financial Strategy is not affordable and there would have to be cuts to the proposed capital expenditure and/or cuts to services.

- The asset gap would not close and would actually get worse, asset maintenance costs will increase and future generations will have to meet the increased asset renewal cost.

- There would be no capacity to fund work on natural assets and no significant new asset works.

Option 2 – Rate Increase of 9.5% each year over seven years
Council advised the community that under this option:
- There is an increase of 9.5% in General Rates (including an assumed rate peg of 3%) each year for seven years.

- This increase would remain permanently in Council's rate base and after seven years the increases would revert to the normal rate peg amount.

- This would properly fund the Long Term Financial Strategy, so the seven year time frame is consistent with that plan. Seven years is also the maximum period for a Special Rate Variation approved by IPART, thereby minimising the annual cost increase.

- Asset conditions will improve significantly in this time and there would then be a substantial saving in annual asset maintenance costs of approximately $3m per annum.

- There is limited scope for spending on new assets.

As noted previously, Option 3 (12.5%) was removed after stage 2 consultation – to not confuse the options, Option 3 is not referred to again.

Option 4 – An amount in between Option 1 and 2
Council advised the community that this option:
- Recognised the need for a rate increase and provided the community with an alternative that is less than the full 9.5% being more affordable and in recognition of their capacity and willingness to pay.

- Would not fully fund the asset gap and therefore would also limit the funds that could be spent on new assets.

The following engagement activities took place in Stage 3 of the consultation:

Table 39: Stage 3 engagement strategies

'Engage Me' spectrum	Description	Engagement modes
Inform	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	Information booklet • Mailed with the scheduled quarterly instalment notices to reduce mailing costs, those not paying by instalments were mailed separately – 59,000 copies • Available at Council's Civic Centre, 5 Libraries

'Engage Me' spectrum	Description	Engagement modes
		and 6 Child Care Centres – 2,300 copies • Emailed to community groups, sporting groups and other Council networks - 1,000 recipients • Emailed to all members of Council's resident e-panel, child care data base and respondents to the Stage 2 online survey - 2,000 recipients
		Postcards • Advertising the engagement and urging people to have their say were distributed at a range of community events – 1,000
		Newspaper Advertisements - Wyong Regional Chronicle • January 17 – half page ad – Look out for important information with your next rates notice • January 31 – half page ad – Wyong Shire residents and ratepayers *its time to MAKE YOUR CHOICE ON RATES* Newspaper Advertisements- Rural and Village Grapevine • February 5 - Wyong Shire residents and ratepayers its time to *MAKE YOUR CHOICE ON RATES*
		Newspaper Advertisements – Central Coast Express • Wednesday January 9, 2013 – first half page advertisement appears on page 26 – Look out for important information with your next rates notice.' • January 16 and 18 – Don't miss your chance to tell us what you think • January 23 and 25 – Wyong Shire residents and ratepayers its time to *MAKE YOUR CHOICE ON RATES* • January 30 – • February 1 – double page advertisement appearing on pages 2 and 3 with large heading *RATE RISE ON THE CARDS* – If you live in the Wyong Shire, this affects you – You can still choose what you want Council to do • 6 February – Wyong Shire residents and ratepayers its time to *MAKE YOUR CHOICE ON RATES* • 8 February – Wyong Shire residents and

'Engage Me' spectrum	Description	Engagement modes
		ratepayers its time to *MAKE YOUR CHOICE ON RATES* – Come along to the LAST Community Information Session • In Council's weekly Shirewide ad, in the Central Coast Express, a short article on the 'Your Voice, Your Say, Your Future' campaign was featured on the 16 January 2013 and 6 February 2013
		<u>Radio Advertisements</u> - SEAFM and 2GO • 233 radio ads ran on SEAFM and 233 ads ran on 2GO between 7 January 2013 and 15 February 2013 • From 9-25 January the message was watch out for important information about rates in your mailbox • From 23 January to the 15 February – the message was read the brochure and come along to one of the Community Information Sessions <u>Radio Advertisements</u>- <u>StarFM</u> • 30 ads ran from 21 January 2013 until 8 February 2012 – • 28 ads ran from the 8th-15th February
		Telephone • Customer Contact staff promoted through "call wrap" process – approximately 11,000 callers
		<u>Media Releases</u> • A media release entitled Crunch Time on Rates Rise was issued on 21 January 2013 – this date was chosen as it was when the information brochures were expected to land in ratepayer's mailboxes • A media release entitled Wyong Shire Residents – come to one of our Community Information Sessions – was issued in the week of the first Community Information Session
Inform	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	<u>Council's Website</u> A banner with the heading *TIME IS RUNNING OUT TO MAKE YOUR CHOICE ON RATE RISE* was displayed at the very top of the main Wyong Shire Council website (<u>www.wyong.nsw.gov.au</u>). From there residents/ratepayers could click on 'Read more about the two options' or go straight to voting at the consultation hub. Information about

'Engage Me' spectrum	Description	Engagement modes
		the Community Information Sessions and urging residents to come along was a main feature. A copy of the brochure, sent to all ratepayers, could be downloaded. A number of subpages could be accessed from the main page, 'Your Place, Your Say, Your Future' webpage views - 4,057 • What is the current situation and why are we asking you to make a choice? • What have we already done to save money and improve our business? • How will Council services be impacted by my decision? • What are the two options to choose from? • How has Council consulted the community about this so far? <u>Council's Website sub pages</u> These subpages contained detailed information about Council's current financial situation and the impact on services without a rate rise. A number of important documents were also available for downloading - 2,504 sub-page views: • A media release from the Local Government Shire's Association – Council's cough up nearly $500 million to cover Government costs • A detailed list of proposed asset upgrades budgeted over the next seven years that would greatly improve the condition of our assets. • NSW Treasury (TCorp) Financial Assessment and Benchmarking Report on Wyong Shire Council • Department of Local Government Annual Financial Review • Wyong Shire Council's response to the Department of Local Government Review • Wyong Shire Council Media Release – Council to cease Vacation Care services • A copy of all the postcards, distributed around the Shire, advertising the Community Information Sessions • Graphs detailing ordinary rates increases under Option 1 and Option 2 – over seven years • Wyong Shire Council Report – Service Standards Review – Results of Stage 1 Community Consultation • Information brochure on the three options

'Engage Me' spectrum	Description	Engagement modes
		that was produced for Stage 2 Community Consultation • Council report – Service Standards Review – Results of Stage 2 Community Consultation • Minutes of the ordinary Council meeting of 12 December 2012

Detailed information about the asset funding issues, the three funding options and the additional cost to ratepayers of each option was conveyed to the community through:

Table 40: Stage 3 engagement strategies continued

'Engage Me' spectrum	Description	Engagement modes
Connect	To obtain public feedback on analysis, alternatives and/or decisions.	• Direct discussions with staff • A random telephone survey of residents conducted by an external independent provider – 400 voting responses • An online survey – 3599 voting responses • Reply paid hard copy voting form (or drop off at a Council centre) – 2595 voting • responses • Submissions from individuals or organizations – 112 responses of which 48 were voting responses and are included in the overall mail-in results. The issues raised in these submissions are referred to elsewhere in the report. • 9 Facebook posts • 892 Facebook post views • 27 Comments on Facebook posts • 9 Posts on Council's Twitter feed • 6 Re-tweets of our messages by others
Engage	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	<u>Community Information Sessions</u> 2 information sessions were held where council staff presented the issues and information around the SRV and the community was able to ask questions of staff – 181 voting responses • Civic Centre, Wyong, 7 February 2013 - 245 attendees • Halekulani Hall, Budgewoi, 12 February 2013 - 172 attendees <u>Ourimbah Precinct Committee</u> • The Mayor attended a meeting of the Ourimbah Precinct Committee on 06/02/13 to explain Council's position on the SRV – 17 voting responses which are included in the overall information session results

This information clearly sets out the impact of each option on a number of rate levels, including the average general rate across the Shire. It also identifies those works that would be carried out if the additional rate income is achieved and the effect on the community if it is not achieved.

The basis of the engagement was an information booklet setting out the funding options, the further information requested by the community and detailing how they could register their preferred funding option.

The engagement methods used in Stage 2 were used again as they were cost-effective in reaching a wide range of Shire residents, with the exception of the shopping centre displays, which were not used.

Direct Mail - The information booklet, with mailed directly to all ratepayers (59,000) with a reply paid returnable voting slip, The great majority of those were sent with the scheduled quarterly instalment notices to reduce mailing costs, the remainder were mailed directly.
Additional booklets were provided at the community information sessions and 2300 were also distributed to Council's Civic Centre, 5 libraries and 6 Child Care Centres.

A total of 2595 voting slips were returned.

Telephone survey - 400 residents surveyed by an independent external provider, Micromex Research. Residents were contacted at random by Micromex and asked if they had received and read the information booklet mailed out to all ratepayers. If not and they were interested in participating in the survey, a copy was mailed to them and the survey interview carried out a few days later when they had time to read the booklet. The survey questions were consistent with the other methods of survey set out below.

The statistical accuracy of the survey was +/- 4.9% for a 95% confidence level for a sample size of 400.

Community Information Sessions - rather than workshops sessions, 2 community information sessions were scheduled to enable residents and ratepayers to directly question Councillors and staff. Council's Draft Local Environment Plan was also on exhibition at the same time, so there were two parts to the community information sessions, involving both the draft Local Environmental Plan (LEP) consultation and the proposed rating options to try and generate greater attendance.

The two community information sessions were held in February 2013 in the north and centre of the Shire. The sessions were extensively promoted and held at community facilities on weeknights of 7 and 12 February. Each of the sessions was facilitated by an independent, external consultant, with senior Council staff attending to explain key points and answer questions. Attendees were given a package of information regarding the asset gap and had the option of lodging their funding preference on the night via a hard copy voting slip.

A total of 417 people attended the two sessions. At the request of the Ourimbah Precinct Committee, the Mayor attended their meeting on 6 February 2013 to explain the SRV and asset gap issue. 17 voting responses were received at this meeting and included in the voting tallies.

Online Survey - this commenced on 18 January 2013 and closed on 15 February 2013.

The online survey was open to residents and ratepayers and widely publicised via the same communication channels as the community information sessions. All members of the Resident ePanel, precinct committees, via Council's own databases for community, sporting, environmental, cultural and other networks.

The survey received 3599 voting responses.

Submissions - A further 112 letters and other submissions were received as either attachments to voting forms or separate letters. Of these, 48 indicated a preference for one of the options and were included in the voting tallies.

The demographic spread of the respondents was:

Table 41: Stage 3 demographics

Age 18-24	107*	2%
Age 25-34	569	8%
Age 35-44	863	13%
Age 45-54	1228	18%
Age 55- 64	1559	23%
Age 65-74	1535	22%
Age 75+	725	11%
Not specified	254	3%
Male	3332	49%
Female	3189	47%
Not specified	319	4%
Number of suburbs represented	67/68	

*Includes 10 responses from <18

Analysis of the demographics shows:

- A high degree of community participation across all engagement modes in comparison to the November 2012 consultations

- Gender composition is balanced for all engagement modes except for Workshops where it is skewed towards males

- Suburbs have been well-represented in all engagement modes

- Age composition is skewed towards 45+ age groups in all engagement modes, which is generally reflective of the Shire's demographics as at the 2011 Census, as set out in the *Appendix 1*.

The final step in the consultation process occurred at the Ordinary Meeting of Council on 27th February 2013, where Council considered the final report on the 3 stages of the engagement process and decided to proceed with an application for a Special Rate Variation. The Chair of Lake Munmorah and Chain Valley Precinct Committee was given approval to address Council and raise objections to the proposed increase.

Results of Stage 3

During Stage 3, ratepayers and residents were asked to indicate their preference for Option 1 (rate peg only) or Option 2 (9.5% increase per year for seven years, including the rate peg). A further question was asked as to whether there would be support for in between the rate peg amount and less than 9.5%. 6,840 voting responses were received for Stage 3 as detailed below.

The initial comparison for Options 1 and 2 are shown, followed by the overall support for an increase above the rate peg. That is derived from those respondents who supported Option 1, but also said they would support an increase less than 9.5%.

Table 42: Stage 3 option results

Total Numbers Stage 3	Rate Peg Only	9.5%
6840	5920 (87%)	920 (13%)

Those who answered to Rate Peg Only also had the option of indicating if they would support an increase below 9.5%, the table below highlights the percentage of those who were willing to support an increase above the rate peg.

Table 43: Stage 3 option results continued

Total Numbers Stage 3	Rate Peg Only	Any Increase
6840	3888 (57%)	2952 (43%)

During Stage 3 there were also numerous comments made by respondents at the workshops or in their written comments. These issues were either addressed when they arose at the information sessions or in discussions with Council staff. Council staff will work through these and the other issues raised during the consultation to work out appropriate actions to address them.

Some submissions suggested alternatives to the proposed 9.5% increase, such as:

- Apply for a lower percentage increase over a shorter term
- Apply for a lower increase over a longer term (not possible as IPART maximum term is seven years)
- Re-assess the situation after four years and adjust the increase if Council's financial position improves
- After seven years, return the base rate level to what it would have been under rate pegging
- Special Rate Variation of 6% per year for seven years, combined with additional borrowing

These alternatives were included in the report to Council on 27th February, 2013 and considered prior to Council's decision to proceed with an SRV application.

Council achieved its Stage 3 objectives of:

- To provide more time and information for the community to respond
- To ensure we understand your capacity to pay
- To ensure you know all the facts about Council's current, and future, financial situation

- To explain how assets are tied to services
- Demonstrating to the community that it was improving its efficiency and effectiveness

4.1.2 Summary

Council has conducted a three stage engagement process to provide information to the community and has taken into account the community's response. The statistical analysis of Stage 2 results supports the fact that Council could have proceeded with a SV application after Stage 2, however decided to proceed with Stage 3 as a result of community feedback.

A range of consultation methods were used to raise awareness, provide information and allow the community to respond.

This resulted in 8,794 total responses over the three stages, which is a high rate of response for any Council engagement process and indicative of the consideration taken by Council to ensure the appropriate engagement methods were used to reach a broad representation of the community.

Council provided clear and accurate information on the financial impact of the proposed rate increases and identified the works which would be undertaken if the additional income is achieved. It also identified the impact and future issues the community will face if the additional work to bring the assets up to a satisfactory standard is not carried out. Council's efforts to improve its efficiency and effectiveness were clearly communicated.

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.

Due to the complex nature of Council's Engagement Strategy, the results of each Stage have been included in Section 4.1 to make it easier to link the results to each stage of the engagement. Full details of the results have been included in the Appendix as set out in Section 4.1. In Section 4.2 we have analysed the results from each Stage and explained the reasoning behind Council's assessment of the community's willingness to pay for an increase above the rate peg.

As the Draft WSC SP 2013-2017 is currently on public exhibition, Council has undertaken to provide IPART with a summary of submissions received that relate to the proposed SRV application identifying the nature of feedback and any action proposed to address issues of common concern. This will occur in April 2013 as agreed.

4.2.0 Outcomes of Stage 1 – Identification of service needs and values

Community feedback in Stage 1 consistently confirmed that residents valued a wide range of Council services. In particular, roads and drainage infrastructure was consistently shown to be the service that residents felt Council should focus on more.

The vast majority of participants across the various consultation methods demonstrated strong support for improving service levels across all areas.

Findings

Analysis of Stage 1, found that what the community values most is:

- Ease of access to services
- Quality/affordable/reliable services
- Good governance, efficiency, equity in provision of services
- Sustainability – both environmental and financial
- Services which provide community benefit and promote community spirit

In general terms, the community told us that they:

- Overwhelmingly love Wyong Shire and feel it is a good place to live
- Have a strong preference for Council to be financially sustainable
- Generally prefer that natural assets including bushland, coastline, lakes and estuary in the Shire are maintained and protected
- Strongly support cycleways, sports and recreation facilities
- Have a strong preference for sustainability
- Have a preference for libraries and community centres/facilities that help promote community spirit
- Strongly favour activity that generate local employment opportunities and develop tourism
- Have low to medium levels of satisfaction with the overall level of service Council currently provides.

On Council's Principal Activities in the Operational Plan/4 Year Plan, the information provided on relative importance and satisfaction showed us:

Table 44: Priority of PA based on consultation

Level of Importance	Principal Activity
High	Roads and drainage Governance
Medium	Environment Community recreation Community education Waste Economic & property development
Low	Regulatory and compliance

There was a medium to low satisfaction level for all activities.

The telephone survey, which included questions from previous Reputation and Omnibus Surveys, found that over 50% of respondents were willing to pay between 25c and $2 per week extra to fund an expanded program in the areas of public works, environmental works and community development programs.

It was noted during the telephone surveys and workshops that community members did not always understand the full extent of Council services provided, meaning that issues like legislative requirements were not fully considered.

For the purpose of the engagement, it was considered that this did not influence the value definition exercise and would only be relevant in subsequent stages.

4.2.1 Development of Three Future Funding Scenarios

Stage 1 results provided a starting point for the planning future levels of service. Using this information, Council managers compared the community's desired levels of service against the current levels of service provided to identify disparities.

The next stage of work involved costing the future service levels and exploring available options for funding them and testing this with a community-based Deliberative Working Group, facilitated by an independent consultant.

Findings

The Deliberative Working Group provided input on the draft scenarios using criteria they developed during their workshops and their understanding of the information presented

The majority of DWG members identified Option 2 (9.5%) as the preferred option citing reasons such as fairness and equity, affordability, predictable outcomes, smallest cost for maximum benefit to most, best outlook for Shire without too much pain, greatest cost/benefit. There was no support for Option 1 (no rate rise above the rate peg) as the preferred option.

A report on the findings of the community engagement process to this point was provided to Council on 24 October 2012. Based on these findings, Council delegated authority to the General Manager to take all necessary actions to comply with IPART deadlines for a SRV to apply from 1 July 2013.

4.2.2 Stage 2 – Consultation on three future funding scenarios

The second major stage of engagement was undertaken in November/December 2012, and gathered 1,770 responses to a poll on the three scenarios based on three different rate increases:
1 - rate peg only increase

2 - 9.5% increase per year for seven years

3 - 12.5% increase per year for seven years

Participation

The rate of response for Stage 2 was considered high with 1,850 people participating resulting in 1,770 voting responses as set out below:

- 400 residents took part in the independent telephone survey

- 876 respondents participated in the online survey
- 469 respondents replied to survey by return mail
- 61 residents attended the workshops
- 44 additional letters and submissions were received from various individuals and groups*

* Letters and submissions not included in voting numbers.

Findings

While the combined total of the votes showed a clear preference for Option 1, there were vastly different outcomes depending on the method of consultation used.

Table 45: Option 1 findings

Forum	Option 1	Option 2	Option 3
Workshops	17% (7)	64% (27)	19% (8)
Phone survey	51% (206)	41% (164)	8% (30)
Online survey	66% (580)	21% (187)	13% (109)
Return Mail Survey	68% (307)	23% (106)	9% (39)
TOTAL	72% (1100)	27% (484)	11% (186)

Analysis of the data shows that where participants were involved in a more deliberative method of engagement it resulted in a high level of support (83%) for a rate increase of some kind.

These results suggest that when participants have the opportunity to discuss issues with staff and gain a better understanding of options, they were more likely to choose Option 2 or 3.

There were attendees at each workshop who clearly stated that they would not support a rate increase above the rate peg and subsequently supported Option 2 when they better understood the issues. This provided confidence that Council's case for an increase was solidly based.

The 44 separate submissions from community members and organisations were generally in support of no rate increase, although some showed a level of support for option 2.

Many of the online and hard copy voting responses also contained comments on the proposed options and other issues. The overall level of response was significant and builds on the work that Council has done to develop and implement the Community Strategic Plan.

The statistical analysis by t-cAM Consulting provides the following analysis of the Stage 2 results:

" On face value, the first round survey results were inconsistent with regard to showing support for any rate increase in excess of inflation: The workshop results showing (as would be expected from more engaged and informed consultation) 64% supporting the lower of the increase proposals and 83% supporting either of the increase proposals. However, the sample size is not sufficiently large to provide statistical validity as being representative of the wider community.

The telephone survey results show 49% of those surveyed as being in favour to some degree with either Option 2 or 3. This is a statistically valid sample, Page 2

with a potential error of +/-2.3%. Given the potential error band, this result is neutral.
The Mail in and online surveys showed a clear rejection of the proposed increases by approximately 68% and 66% respectively. Both surveys are statistically valid.

However, the online survey also provided a valuable insight in to community attitudes that cannot be ignored. Respondents who rejected any rate increase were asked to provide an indication of what factors would change their mind about supporting the increase. All these factors involved having confidence that Wyong Council was efficiently and effectively discharging its responsibilities.

In responding to this question, 33% of those who responded negatively to the rate increase (chose Option 1) would not support either proposed rate increase under any circumstances. 67% therefore, are willing to entertain a rate increase (either Option 2 or Option 3) if they could be assured of Council's efficiency and effectiveness in expending its funds.

The online sample size is statistically valid, and can therefore be used to interpret the perceptions and views of all responders who chose Option 1, regardless of survey type. This permits Wyong Council to legitimately claim that, given it can either demonstrate high efficiency and effectiveness, or puts in place a program to achieve appropriate levels of efficiency and effectiveness, those people who responded as just discussed can be counted as supporting at least Option 2 of the first survey.."

Apart from the quantitative results above, the major issues raised by the community were also reported to Council. Those issues were summarised as:

- Uncertainty about where the money will be spent
- Uncertainty about which services are at risk if Option 1 is adopted
- The size and affordability of the proposed increases
- Understanding Council's efficiency and financial management
- Perception of current lack of services
- Lack of adequate notification to all ratepayers and residents
- The short time frame for the consultation.

Therefore, while Council could have proceeded with an SV application based on the results of Stage 2, it had regard for the community's requests for further information. As a result of Stage 2, staff recommended to Council that Option 3 (12.5%) not have any further consideration due to the minimal level of support received. The results of the Stage 2 consultation were reported to Council on 12/12/12.

4.2.3 Stage 3 – Additional consultation on two options

Findings

During Stage 3, ratepayers and residents were asked to indicate their preference for Option 1 (rate peg only) or Option 2 (9.5% increase per year for seven years, including the rate peg).

A further question was asked as to whether there would be support for in between the rate peg amount and less than 9.5% referred to in the results as Option 4. 6,840 voting responses were received for Stage 3 as detailed below.

The initial comparison for Options 1 and 2 are shown in the Table below, followed by the overall support for an increase above the rate peg. The overall support is derived from Option 2 plus those respondents who supported Option 1, but also said they would support an increase less than 9.5% (Option 4).

Table 46: Overall option preferences

Forum	Option 1	Option 2	Total
Phone survey	66% (263)	34% (137)	400
Online survey	87% (3,118)	13% (481)	3599
Mail in survey**	90% (2,371)	10% (272)	2643
Information sessions*	85% (168)	15% (30)	198
TOTAL	**87% (5920)**	**13% (920)**	**6840**

*Includes the 17 votes from the Precinct Committee meeting
** Includes the 48 votes received via letter and submission

The table below shows those residents who initially supported Option 1 and also said they would support an increase less than 9.5%

Table 47: Support for a lesser rate rise (Option 1 respondents)

Forum	Yes	No	Total
Phone survey	58% (153)	42% (110)	263
Online survey	24% (738)	76% (2323)	3,118
Mail in survey**	45% (1069)	55% (1302)	2,371
Information sessions*	43% (72)	57% (96)	168
Sub total	**34% (2,032)**	**65% (3,831)**	
No response – online			57
TOTAL			5920

* 57 (1%) respondents in the online survey did not provide an answer to the <9.5% question

Adding the support for Option 2 and the support for a lesser increase gives the overall level of support for an increase above the rate peg.

Table 48: Overall level of support for an increase above rate peg

Forum	Option 2	Option 1 + Yes to lesser increase	Total support	% support per forum
Phone survey	137	153	290	290/400=73%
Online survey	481	738	1,219	1219/3599=34%
Mail in survey**	272	1069	1,341	1341/2643=51%
Information sessions*	30	72	102	102/198=51%
Total	**920**	**2032**	**2952**	**2952/6840=43%**

These results were reported to Council on 27th February, 2013.

4.2.4 Increase of 6.9%

During Stage 3, Councillors were receiving community feedback as a result of the engagement process. The community had been asked to indicate support for an increase greater that the rate peg and less than 9.5%, but was not asked to specify the amount of that increase. As Council had already resolved to consider an increase up to 9.5% per year for seven years, at its meeting of 13th February, 2013, Council considered a Mayoral Minute and resolved for staff to prepare a further option of 6.9%.

This was to give Councillors information on an alternate option between the rate peg amount and the 9.5% for consideration on 27 February 2013 to decide if a special rate variation submission would be made and at what percentage. Councillors were aware that this will not completely close the asset gap by June 2020, it will be reduced from $130m to $25m. They were advised that this will require staff to look at developing further strategies to increase productivity, realise cost savings and generate alternative revenue streams to close the rest of the gap. However, the decision to consider a 6.9% Option is a clear example of Council responding to the results of community consultation, as it did when it removed Option 3 (12.5%) from Stage 3 consultation.

The 6.9% Option details were included in the report to Council on 27th February, 2013. Details of the effect on average general rates were provided to Councillors in the report and used in deciding on the 6.9% increase. Full details of the impact of the 6.9% increase on ratepayers are set out in Section 5.

4.2.5 Willingness to Pay

Council subsequently resolved to proceed with an SRV application for 6.9% per year for seven years. In doing so, the following factors relating to the community's willingness to pay were considered:

- The 2 random telephone surveys provide the best chance of an unbiased representation of the community's response. It was conducted by an independent provider, using the same questions as Council's online and hard copy surveys. 400 respondents were chosen at random and given time to read the information booklet before being interviewed. The respondents represented a broad cross-section of Council's demographics and a sample size of 400 residents is statistically proven to provide a maximum sampling error of approximately +/- 4.9% at 95% confidence. 73% of phone survey respondents supported an increase above the rate peg. This phone survey contacted 400 different respondents to the first survey undertaken in Stage 2. Overall support for some form of increase went from 49% in Stage 2 to 73% in Stage 3.

- There was a concerted effort to promote Option 1 by sections of the community.

- As was expected, there was an effort by some groups in the community to promote and encourage residents to vote Option 1, particularly through the WyongRates website (Appendix ?)

- Online Survey - results show 39% overall support for an increase of some sort. That is inconsistent with the other results.

- 55% of the respondents who supported Option 1 were in the age groups of 55 and above, increasing the likelihood that they are on fixed incomes and pensions and would be more concerned about a 9.5% increase.

- The overall level of support for an increase of some amount above the rate peg, but less than 9.5% is 43%. This indicates that the community understands the situation it is facing and does support an increase in rates that will provide tangible outcomes.

4.2.6 Summary

Council has recognised the importance of the capacity and willingness to pay of our residents, which resulted in the 12.5% option being removed and providing an alternate option of willing to pay less than 9.5%. With over 8,000 responses received and two independent surveys recognising the need for a rate variation, the community has made it clear that an increase of less than 9.5% is supported and Council has responded. Council has decided on an increase that will address the community's concerns and still allow the asset gap to be closed, while recognising that there will still be a need to reduce levels of service and staff will need to create further efficiencies and improvements to reduce costs.

The 6.9% increase is seen as a reasonable alternative that would be acceptable to a significant proportion of the community.

Appendix:
1 – Wyong Shire Profile
2 – Draft Wyong Shire Council Strategic Plan 2013-2017
9 – Council Report – 27 February 2013
12 – Council Report – 23 November 2011
13 – Council Report – 24 October 2012
14 – Council Report – 12 December 2012
25 – Stage 1 Engagement Strategy
26 – Stage 1 Promotional Material
27 – Stage 1 Phone Survey and Results
28 – Stage 1 Power Point Presentation
29 – Stage 2 Engagement Strategy
30 – Stage 2 Promotional Material
31 – Stage 2 Online Survey and Results
32 – Stage 2 Phone Survey and Results
33 – Stage 2 Power Point Presentation
34 – Stage 3 Engagement Strategy
35 – Stage 3 Promotional Material
36 – Stage 3 Online Survey and Results
37 – Stage 3 Phone Survey and Results
38 – Stage 3 Power Point Presentation
39 – Stage 1 Tenix Analysis of Voting Responses
40 – Stage 2 Tenix Analysis of Voting Responses
41 – Stage 3 Tenix Analysis of Voting Responses
48 – Mayoral Minute – 13 February 2013
49 – Stage 3 t-cAM Consulting Statistical Analysis

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.

Part A worksheets have been completed.

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.

Our rating structure is outlined below, and can be found in full within the Statement of Revenue Policy in the Draft WSC SP 2013-17 (Part 6). The current rating structure is a base rate plus ad valorem (land multiplied by rate).

Our base rate is low by comparison with neighbouring Councils and those in DLG Group 7, and neighbouring councils and well below the maximum percentage allowed under the Local Government Act.

In the section below, we explain our proposed rating structure which will be applied regardless of whether a Special Variation (SV) is approved or not. However, it is important to note that Council is investigating the merits of changing to an alternate rating structure based on the minimum rate model, which could be implemented from 2014/15. This possibility is further discussed in *Section 5.2*.

Our assessment of our community's capacity to pay included comparisons with neighbouring Councils, Councils in the DLG Group 7, and those with a similar SEIFA Index of Disadvantage rating/population size. Across all these groups, our rates are modest and our assessment of community capacity to pay shows that our relative level of disadvantage, when low housing costs are included, is just below the median for all Councils in NSW.

We also note that nearly 20% of our residential rate payers live outside of Wyong Shire and have been assumed to have a higher capacity to pay.

Our approach to debt recovery has undergone radical change in the past two years and is now at the forefront of best practice in local government when it comes to credit management and options for those experiencing financial hardship.

5.1.0 Ordinary Rate Structure

Wyong Shire Council uses a base amount plus an ad valorem (land value multiplied by a rate in $) as our rating structure. For 2013/14 the base amount across all categories is the same – notably $174 for an increase of the rate peg only or $180 for a SV of 6.9%.

It comprises four categories and one sub-category:

- Residential
- Farmland
- Business
- Business – Major Retail
- Mining

The sub category of Business – Major Retail was introduced in 2011/12 with an ad valorem rate of 1.5 times that of the ordinary business rate with the additional revenue from that sub-category used to reduce the rate burden on the residential category. It applies to properties within the Shire's three major retail precincts.

5.1.1 Base Rate

For the calculation of ordinary and special Rates for 2013/14, we apply the most recent property valuations from the Valuer-General's Department (base date of 1 July 2011). Valuations are reassessed every three years.

The proposed base rate has been determined with regard to the requirements of Section 536 of the Local Government Act (1993). In an attempt to provide a fair and equitable rating structure, particular importance has been placed on the following criteria:

- The degree of congruity and homogeneity between the values of properties subject to the rate and their spread throughout the area
- Whether a rate that is wholly an ad valorem rate would result in an uneven distribution of the rate burden because a comparatively high proportion of assessments would bear a comparatively low share of the total rates burden.

In accordance with the Local Government Act (1993), the maximum percentage of revenue that can be raised by the base amount in each category is 50%.

Our rating structure is well within this requirement, at an average of 19.43%, resulting in a high proportion of the total rates derived from the ad valorem amount. This means the majority of the amount payable is based on land values, reflecting Council's commitment to social justice and affordability principles.

The base rate amount is also very low when compared with all other Division of Local Government (DLG) Group 7 councils, neighbouring councils and councils with a similar SEIFA rating and population.

Of those DLG Group 7 councils with a minimum rate structure, many have, with permission, set a minimum rate at or above the statutory maximum.

By comparison, our farmland rate has a low ad valorem percentage in line with our historical position of support to primary producers.

5.1.2 Ordinary Rate Distribution

The proposed rating distribution for the period of the SV would be the same under either a rate peg or a SV.

The rating distribution is illustrated in *Table 49* below:

Table 49: Rating category and distribution

Category	Sub category	% No of assessments	% ordinary Rate Income
Residential		95.73	85.52
Farmland		0.22	0.48
Business		4.02	11.27
Business	Major Retail	0.02	1.41
Mining		0.01	1.32

Council has made several adjustments to the distribution of the rate burden over the past three years, being:

- Increase of 25% to the mining category rate burden with the additional revenue off-set by reduced rates on the business category (2009/10). This was implemented to reduce the financial burden on small businesses which were experiencing a downturn in economic conditions while mining was considered to be highly profitable and experiencing favourable economic conditions.

- Sub category of business major retail was introduced with the additional revenue from this sub category off-set by reduced rates on the residential category (2011/12). This was introduced after consideration of the large volume of traffic these large retail centres were attracting and the subsequent demand on Council resources. A comparative analysis of similar large retail properties showed that Wyong's charges for this type of ratepayer were extremely low.

- Mining category rate burden increased by 100% with the additional revenue from this category offset by reduced rates on the residential category (2011/12). This reflected the general view that mining had continued to enjoy favourable conditions and that burden on residential rates should benefit from this redistribution.

5.1.3 Special Rates

In addition to ordinary rates Council also applies special rates to properties within and around three of our town centre areas to enhance local businesses with the objective of promoting economic development. The funds raised are provided to town centre management organisations in the three locations to administer the business improvement programs in those areas.

These special rates will continue regardless of the outcome of this SV application.

5.1.4 Comparison of rating structures – 6.9% and Rate Peg only

The following table reflects the calculations in Part A of our Application

Table 50: Rating structure 2013/14 SV of 6.9% approved - Ordinary Rates

Category	Sub category	Base Amount $	Ad Valorem Cents per $ land value	Amount of Rate Yield $	Base Amount Income as % of Total Ordinary Rate Revenue	No of assessments	% No of assessments	% ordinary Rate Income
Residential		180	0.40387	57,084,194	19.43	61,634	95.73	85.52
Farmland		180	0.24660	321,528	7.78	139	0.22	0.48
Business		180	0.75350	7,525,290	6.19	2,586	4.02	11.27
Business	Major Commercial	180	1.13025	941,033	0.31	16	0.02	1.41
Mining		180	8.16737	877,831	0.10	5	0.01	1.32
TOTAL				**66,749,875**		**64,380**	**100%**	**100%**

Table 51: Rating structure 2013/14 with a SV of 6.9% approved - Special Rates

Special Rate	Rate Structure	Base Amount $	Ad Valorem Amount Cents in $	No. of assessments	Amount of Rate Yield $
The Entrance Town Centre	Base amount plus an Ad Valorem	81	0.30855	1,334	844,992
Toukley Area	Base amount plus an Ad Valorem	81	0.25294	201	162,002
Wyong Area	Base amount plus an Ad Valorem	81	0.11263	158	72,300
TOTAL				1,693	1,079,294

Table 52: Rating structure 2013/14 without a SV. Rate peg only 3.4% - ordinary rates

Category	Sub category	Base Amount $	Ad Valorem Cents per $ land value	Amount of Rate Yield $	Base Amount Income as % of Total Ordinary Rate Revenue	No of assessments	% No of assessments	% ordinary Rate Income
Residential		174	0.39067	55,211,260	19.42	61,634	95.73	85.52
Farmland		174	0.23852	310,979	7.78	139	0.22	0.48
Business		174	0.72881	7,278,445	6.18	2,586	4.02	11.27
Business	Major Commercial	174	1.09322	910,200	0.31	16	0.02	1.41

Mining		174	7.89946	849,035	0.10	5	0.01	1.32
TOTAL				**64,559,919**		**64,380**	**100%**	**100%**

Table 53: Rating structure 2013/14 without a SV. Rate peg only 3.4% - special rates

Special Rate	Rate Structure	Base Amount $	Ad Valorem Amount Cents in $	No. of assessments	Amount of Rate Yield $
The Entrance Town Centre	Base amount plus an Ad Valorem	79	0.29795	1,334	817,008
Toukley Area	Base amount plus an Ad Valorem	79	0.24495	201	157,003
Wyong Area	Base amount plus an Ad Valorem	79	0.10869	158	69,903
TOTAL				1,693	1,043,914

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.

In this section, we provide information on the cumulative impact of the proposed increases on different rating types and categories, as detailed in Worksheet 5 of Part A.

We explain why we believe these rate increases are reasonable.

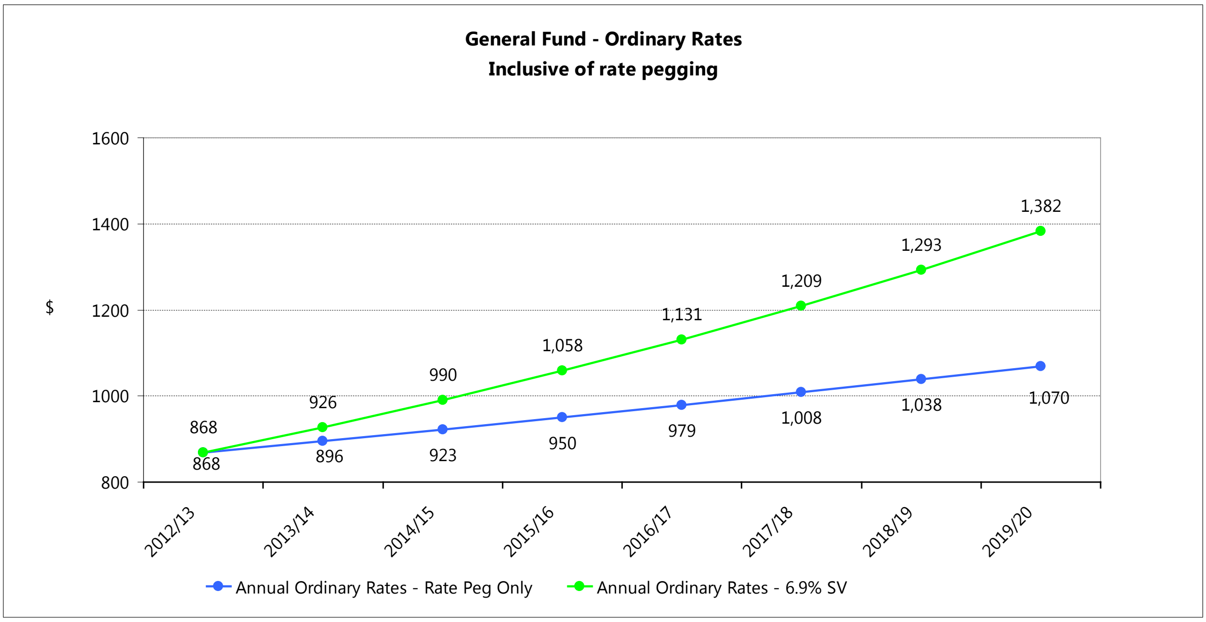
5.2.0 Cumulative Impact

The cumulative impact of the proposed increases on different rating types and categories is set out in Worksheet 5 of Part A, and is summarised in the following table.

Table 54: Cumulative impact of proposed options

Category	Option	Average Rate 2013/14	Average Rate 2019/20	Increase $	Increase %
Residential	6.9%	926.18	1,382.17	514.13	59.23
	Rate Peg	895.79	1,069.62	201.58	23.22
Farmland	6.9%	2,315.23	3,455.09	1,287.16	59.37
	Rate Peg	2,237.26	2,671.40	503.46	23.22
Mining	6.9%	175,566.10	262,003.38	97,456.21	59.23
	Rate Peg	169,807.00	202,758.44	38,211.27	23.22
Business	6.9%	2,909.78	4,342.36	1,615.22	59.23
	Rate Peg	2,814.33	3,360.46	633.31	23.22
Business – Major Retail	6.9%	58,814.54	87,770.98	32,633.59	59.19
	Rate Peg	56,887.52	67,926.67	12,789.28	23.20

Figure 14: Scenario 1 and 2 comparison



5.2.1 Impact on different rating categories

If approved, the SV of 6.9% will be applied to all rate categories equally.

No change to the rate categories or distribution of rate burden between the categories is proposed as we consider the current approach is appropriately balanced in terms of affordability, equity and fairness taking into account the current economic and local conditions.

Variations would be applied at an equal rate of 6.9% each year throughout the seven year period.

5.2.2 Reasonableness

Comparison of Average Residential Rates

For the purpose of examining the reasonableness of our proposed rate increase, we have compared Wyong's average residential rates, which make up 96% of our ratepayers, with the following groups:

- DLG Group 7
- Neighbouring councils
- NSW councils with a similar Socio-Economic Index for Areas (SEIFA) ranking and population size produced by the Australian Bureau of Statistics (ABS).

Group 7 Comparison

Comparisons with DLG Group 7 councils show that Wyong's average residential rates are the second lowest in the group, marginally ($3) above Gosford and well below the next lowest council, Campbelltown ($90 more).

The highest ranked council, Blue Mountains, currently charge 39.4% ($342) more in their rates than Wyong.

Table 55: Group 7 average rates comparison

Council	2012/13	Rank out of 8	2019 /20	Rank out of 8 – 6.9 %	Rank out of 8 – Rate Peg
Wyong - 6.9%	$868.05	7	$1,382.17	2	
Wyong - rate peg			$1,069.62		7
Gosford	$865.05	8	$1,068.10	8	8
Hornsby	$1,123.03	2	$1,343.14	3	2
Blue Mountains	$1,210.20	1	$1,488.39	1	1
Campbelltown	$946.82	6	$1,168.28	7	6
Hills	$974.12	5	$1,198.04	6	5
Liverpool	$1,040.00	3	$1,279.07	5	4
Penrith	$1,019.55	4	$1,291.93	4	3

Note that the above figures only include ordinary rates.

Neighbouring Council Comparison

Comparisons with neighbouring councils show our average residential rates are the second lowest in the group, marginally ($3) above Gosford and well below the next lowest council, Newcastle ($151 more). Hornsby currently charge 29.4% ($255) more in their rates than Wyong per year.

Table 56: Local council average rate comparison

Council	2012/13
Wyong	$868.05
Gosford	$865.05
Hornsby	$1,123.03
Lake Macquarie	$1,042.14
Newcastle	$1,018.99

Similar SEIFA/Population Comparison

Comparisons have also been made with other local government areas within NSW that have similar rankings (+/- 10) on the ABS SEIFFA Index of Economic Resources (based on the 2006 Census data). The similarities have been drawn according to similarly larger populations that have a similar urbanised nature.

Wyong's average residential rates are the second lowest in the Group, marginally ($9) above Parramatta and well below the next lowest council, Wollongong ($270 more).

The highest ranked council, Tweed currently charge 41.4% ($359) more than Wyong.

Table 57: SEIFA average rate comparison

Council	Seifa Ranking	2012/13	Rank out of 4	2019 /20	Rank out of 4 – 6.9 %	Rank out of 4– Rate Peg
Wyong - 6.9%	75	$868.05	3	$1,382.17	3	
Wyong - rate peg				$1,069.62		4
Tweed	74	$1,226.62	1	$1,508.59	1	1
Wollongong	82	$1,138.20	2	$1,399.84	2	2
Parramatta	76	$859.89	4	$1,070.90	4	3

Although the SEIFA Index comparisons are with similar sized councils, it should be noted that Wyong has particular challenges relating to:

- Population density.
- A very large and challenging geographical area including major bodies of water that impact infrastructure planning.
- Large areas of flood-constrained low lying areas around the lakes, with many Council assets requiring expensive construction and renewal programs to mitigate flood inundation.
- Specific environmental challenges such as a major lake system requiring urgent rehabilitation, a vast stretch of coastline to manage, and significant tracts of bushland requiring fire hazard protection.
- The number and type of services we provide.

5.2.3 Summary

We believe our application for a SV is reasonable for the following key reasons:

- Council has a long history of limited increases to ordinary rates, with the exception of 1997/98, despite steadily increasing expenses.
- We have reviewed our rating structure regularly and made changes to the distribution across rating categories to improve fairness and equity according to our best knowledge of local social and economic conditions
- We have extensively consulted with residents and ratepayers to identify their priorities for Council service levels and what funding options they would support to resource those service levels. This has included a number of options where increased payment resulted in corresponding increases in service levels. Community feedback through a variety of engagement stages showed strong support for an increase above the rate peg and below 9.5%.
- Analysis with other comparable councils shows that Wyong's average residential rates are among the lowest charged
- A significant proportion of properties in Wyong Shire are owned by those whose primary residence is outside of the area. At March 2013, this equals 12,700 of the 64,500 properties, or 19.7%. It is reasonable to assume that these properties are owned for either investment purposes or as holiday homes which make the owner's capacity to pay increased rates difficult to assess. However, the burden on a second home is less than that on a resident with only their primary residence as their only asset.

- There are 4,976 property owners who own multiple properties within the Shire, or 6.4% of all properties.

- Farmland properties attract the lowest ad valorem rate, receive concessions as primary producers and 17% of farm category property owners live outside Wyong Shire, mainly from the Sydney metropolitan area.

- Mining pays a high rate in the dollar, as this sector is highly profitable and a rate notice is considered to be a relatively insignificant proportion of a mine's total operating expenses.

- Business properties pay approximately 186% of the Residential Rate in the dollar with major retail category ratepayers paying more.

- The total cost to ratepayers of the 6.9% SV and proposed increases to water, sewer and waste management components of the total rate bill are within an acceptable range.

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.

Minimum rates do not currently form part of our rates structure, however our Long Term Financial Plan states that:

"Council will undertake a detailed review of the rating structure to ensure that there is an equitable distribution among ratepayers, consistent with the LTFS objective of affordability." p16

Regardless of the outcome of this SV application, a review of Council's rating structure will be completed over the next 12 months to test whether a different rate structure would achieve a more appropriate balance between affordability and the need for ratepayers to make a reasonable and fair contribution to the services and facilities they receive.

Initial modelling during 2012/13 indicates that a Minimum Rate structure (with a Minimum Rate at the statutory maximum) may be a better option to achieve this balance by redistributing the rate burden, Consequently those properties in the mid range would see relative rate reductions - this group accounts for 65% of the residential rate base.

Council's investigation during 2013/14 will weigh up the merits of a minimum rating structure with a view to implement no sooner than 2014/15 if it is shown to provide a more equitable distribution than the existing methodology.

Council is willing to discuss any proposed change to the rating structure during the period of the SV with IPART in advance of any implementation.

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.

The capacity of ratepayers in each sub-category to pay for a rate variation is outlined below, including comparisons with other Councils in the DLG Group 7, neighbouring councils and those with a similar ranking by SEIFA and population.

We also look at outstanding rates ratios and overall rates and charges.

5.3.0 Residential Rate Payers

The Wyong Shire community has shown that it is willing to pay for a moderate rate rise, rather than a large rate rise (refer Section 4 for detail). Analysis of the community's capacity to pay using a range of affordability measures supports this preference.

Comparison with other DLG Group 7 councils across a range of socio-economic indicators from the ABS Census 2011 shows Wyong Shire has the lowest median weekly household income and the highest level of unemployment. However, it also shows that Wyong has the lowest housing costs for both renting and purchasing and, given that housing costs are the biggest single expense item in most households, the relative level of disadvantage is reduced.

This is reflected in the SEIFA Index of Disadvantage. Comparative data for Group 7 sees Wyong ranked third in disadvantage, after both Campbelltown and Liverpool, despite its low median income levels and is ranked just under the midpoint (rank: 75) of the 152 Councils in NSW.

The table below compares Wyong with other DLG Group 7 councils across a range of socio-economic indicators:

Table 58: Group 7 socio-economic comparison

Council	Median Weekly Household Income	Median Rent ($ per week)	Median Housing Loan Repayment ($/month)	SEIFA Index Score	SEIFA Index NSW Rank
Wyong	$934	$260	$1733	967	68
Gosford	$1089	$280	$1950	1012	117
Campbelltown	$1251	$260	$1800	955	46
Blue Mountains	$1270	$280	$1800	1051	130
Liverpool	$1299	$295	$2167	966	67
Penrith	$1398	$300	$1983	1006	114
Hornsby	$1824	$400	$2400	1100	145
The Hills	$2044	$450	$2570	1116	149

Source: Median Weekly Income/Rent/Housing Loan - ABS 2011 Census. Id consulting – profile.id, SEIFA Score and Ranking - ABS 2006 Census (2011 SEIFA not yet available)

When considering the community's capacity to pay for the proposed increase, it is necessary to also consider the impact of reducing or removing Council assets or services which currently contribute positively to improving the local economy, individual health, safety, amenity and social wellbeing.

For a community in the bottom half of the socio-disadvantage measure, the financial impact of the increase should be assessed against the collective impact of service reduction.

Non-Resident Ratepayers

It is also important to note that while Wyong's residents have an average level of socio-economic disadvantage, a significant proportion of properties in this category are owned by people whose primary residence is outside of the area. At March 2013, this equalled 12,700 of the 64,500 properties – or 19.7%.

It is reasonable to assume that these properties are owned for either investment purposes or as holiday homes. As such, the owner's capacity to pay increased rates is difficult to assess as they are from a variety of other local government areas and information about their individual capacity to pay is unknown. However, what we can say with confidence that the SEIFA Index data for Wyong Shire does not apply to 19.7% of the total rate base, and these owners are likely to have a higher capacity to pay.

Multiple Owner Ratepayers

It is also important to note that there are 4,976 property owners on our database who own multiple properties within Wyong Shire, or 6.4% of all properties.

It is reasonable to assume that these owners have a higher capacity to pay.

5.3.1 Farmland Category

Farmland properties represent a small proportion of the overall rate base (139 out of a total of 64,390 or 0.22%). They attract the lowest ad valorem rate - approximately 61% of the residential rate in the dollar and most of these also benefit from other concessions as primary producers. Due to the lower ad valorem rate, the impact of a 6.9% SV will be less in dollar terms for this category than for all other categories.

A significant proportion (17%) of farm category property owners live outside Wyong Shire, mainly from the Sydney metropolitan area.

5.3.2 Mining Category

Mining properties represent a small proportion of the overall rate base (5 out of 64,390 or <.01%) and attract a high ad valorem rate, over twenty times that of the residential rate.

The impact of a 6.9% SV on this category is significant in dollar terms, however, this sector is currently highly profitable and Council considers even a relatively large rate bill to be reasonably within the capacity of these ratepayers to absorb. It is assumed that an increase in Council rates would be expected to represent a very small increase in the overall cost base for a mining business.

5.3.3 Business category

Business properties represent 4% of the overall rate base, and contribute approximately 11% of the ordinary rate revenue. This is due to the higher ad valorem rate applied, with businesses paying approximately 186% of the residential rate in the dollar.

The impact of a 6.9% SV on this category is considered reasonable as the increase in expenses for business purposes attracts tax deductibility, reducing the real impact by around 30%. In the business – major retail category, properties within the three large retail centres pay 1.5 times the ordinary business rate in the dollar. These centres enjoy very high traffic volumes and a comparison for Westfield Tuggerah in May 2011, showed that Wyong's rates are lower, on a square metre basis, than those applying to any other Westfield centre in NSW.

5.3.4 Outstanding Rates Ratio

Historically, Wyong has had a high ratio of outstanding rates of over 7% and accepted this as an indicator of the community's capacity to pay.

However, in the past two years, our debt recovery processes have been overhauled to change the manner in which debt collection is undertaken, including the appointment of a Credit Manager position and a strategy of active debt recovery through active ratepayer engagement.

The changes have reduced consolidated outstanding debt ratios from a high of 7.34% in 2007/08 to 6.29% in 2011/12, increasing the available cash flow to Council.

The current rates outstanding ratio as at 31 January, 2013 is 6.06%

The debt recovery team focuses on achieving arrangements to pay where payments in full are not financially achievable. No legal action has been undertaken since November 2011 despite the falling rates outstanding ratio. This confirms that the current engagement strategy is working. Council intends to revisit legal recovery action in limited circumstances for non-hardship ratepayers who do not engage with us on their outstanding rates.

Council is aiming to achieve future ratios of less than 5% as benchmarked by the DLG through continuing improvements. While council is keen to reduce the outstanding rates ratio, it is seeking to actively work with ratepayers that are experiencing genuine hardship (refer to our Hardship Policy in *Section 5.4*).

5.3.5 Total Rates and Charges

One of the most important things to consider when considering capacity to pay is the total rates and charges from Council, as opposed to considering ordinary rates alone.

While water and sewerage charges are unrelated to ordinary rates, they represent another cost that ratepayers are liable for. In February 2013, IPART issued a draft determination on the Water and Sewerage prices for both Gosford and Wyong Councils, which will result in a decrease in the average consumer water and sewerage charges.

Based on the figures IPART have proposed, the following tables highlight the level of increase for all charges included on the rates notice and would have a positive impact on Wyong ratepayers' capacity to pay. While council is not pursuing Scenario 2 (SV of 9.5%), it is included in these tables to maintain consistency with the draft 2013-17 Strategic Plan.

Table 59: Scenario 1 rate forecast

Scenario 1 – Base case	2012/13 Baseline	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Ordinary Rates (1)	$868.05	$895.79	$922.67	$950.35	$978.86	$1,008.22	$1,038.47	$1,069.62
Domestic Waste (2)	$460	$483	$502	$522	$543	$565	$588	$612
Stormwater Management (3)	$25	$25	$25	$25	$25	$25	$25	$25
Water Service (4)	$167.35	$164.97	$150.86	$136.48	$122.37	$126.05	$129.83	$133.72
Sewerage (4)	$463.44	$457.25	$467.70	$478.42	$489.37	$504.05	$519.17	$534.74
Drainage (4)	$89.77	$97.01	$104.73	$113.06	$122.07	$125.73	$129.50	$133.39
TOTAL Annual Rates & Charges	$2,073.61	$2,123.02	$2,172.96	$2,225.32	$2,280.67	$2,354.05	$2,429.97	$2,508.48
Increase $		$49.42	$49.94	$52.35	$55.35	$73.38	$75.92	$78.51
Increase %		2.38%	2.35%	2.41%	2.49%	3.22%	3.23%	3.23%

(Assumptions)
1. Rate Peg of 3.4% in year 1 and 3% for subsequent years
2. 5% in year 1 and 4% for subsequent years
3. Flat
4. IPART Draft Determination + CPI of 3% after 2016/17

Table 60: Scenario 2 rate forecast

Scenario 2 – Full Rate Variation 9.5%	2012/13 Baseline	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Ordinary Rates (1)	$868.05	$948.73	$1,038.86	$1,137.55	$1,245.62	$1,363.96	$1,493.53	$1,635.42
Domestic Waste (2)	$460	$483	$502	$522	$543	$565	$588	$612
Stormwater Management (3)	$25	$25	$25	$25	$25	$25	$25	$25
Water Service (4)	$167.35	$164.97	$150.86	$136.48	$122.37	$126.05	$129.83	$133.72
Sewerage (4)	$463.44	$457.25	$467.70	$478.42	$489.37	$504.05	$519.17	$534.74
Drainage (4)	$89.77	$97.01	$104.73	$113.06	$122.07	$125.73	$129.50	$133.39
TOTAL Annual Rates & Charges	**$2,073.61**	**$2,175.96**	**$2,289.16**	**$2,412.52**	**$2,547.43**	**$2,709.78**	**$2,885.03**	**$3,074.27**
Increase $		$102.35	$113.20	$123.36	$134.91	$162.35	$175.25	$189.24
Increase %		4.94%	5.20%	5.39%	5.59%	6.37%	6.47%	6.56%

(Assumptions)
1. 9.5%
2. 5% in year 1 and 4% for subsequent years
3. Flat
4. IPART Draft Determination + CPI of 3% after 2016/17

Table 61: Scenario 3 rate forecast

Scenario 3 – Partial Rate Variation 6.9%	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Ordinary Rates (1)	$868.05	$926.18	$990.09	$1,058.40	$1,131.43	$1,209.50	$1,292.96	$1,382.17
Domestic Waste (2)	$460	$483	$502	$522	$543	$565	$588	$612
Stormwater Management (3)	$25	$25	$25	$25	$25	$25	$25	$25
Water Service (4)	$167.35	$164.97	$150.86	$136.48	$122.37	$126.05	$129.83	$133.72
Sewerage (4)	$463.44	$457.25	$467.70	$478.42	$489.37	$504.05	$519.17	$534.74
Drainage (4)	$89.77	$97.01	$104.73	$113.06	$122.07	$125.73	$129.50	$133.39
TOTAL Annual Rates & Charges	**$2,073.61**	**$2,153.41**	**$2,240.39**	**$2,333.37**	**$2,433.24**	**$2,555.33**	**$2,684.46**	**$2,821.03**

Increase $		$79.80	$86.97	$92.99	$99.87	$122.08	$129.13	$136.57
Increase %		3.85%	4.04%	4.15%	4.28%	5.02%	5.05%	5.09%

(Assumptions)
1. 6.9%
2. 5% in year 1 and 4% for subsequent years
3. Flat
4. IPART Determination + CPI of 3% after 2016/17

As can be seen above this highlights the difference between what ratepayers would be required to pay under each of the options, including the other costs identified in the rates notice, based on the draft IPART determination on water and sewerage prices. The table below provides a summary of the difference in total annual council charges under each of the scenarios as compared to the rate peg.

Table 62: All scenario rate comparison

Year	Option 1- Rate Pegging Only	Total $ Bill Increase under 9.5% (Annual)	Weekly Increase to Total Bill under 9.5%	Total % Bill Increase under 9.5% (Annual)	Total $ Bill Increase under 6.9% (Annual)	Weekly Increase to Total Bill under 6.9%	Total % Bill Increase under 6.9% (Annual)
2012/13 Baseline Average Rate	$2,073.61						
2013/14	$2,123.02	$52.94	$1.02	2.49%	$30.39	$0.58	1.43%
2014/15	$2,172.96	$116.19	$2.23	5.35%	$67.42	$1.30	3.10%
2015/16	$2,225.32	$187.21	$3.60	8.41%	$108.06	$2.08	4.86%
2016/17	$2,280.67	$266.76	$5.13	11.70%	$152.58	$2.93	6.69%
2017/18	$2,354.05	$355.73	$6.84	15.11%	$201.28	$3.87	8.55%
2018/19	$2,429.97	$455.06	$8.75	18.73%	$254.49	$4.89	10.47%
2019/20	$2,508.48	$565.79	$10.88	22.56%	$312.55	$6.01	12.46%

The graphs below compare Wyong's ordinary rates with those of other Council's in Group 7 and charts our position without a SV and a SV of 6.9%

Figure 15: Rate Peg – Average Residential Total Rates and Charges

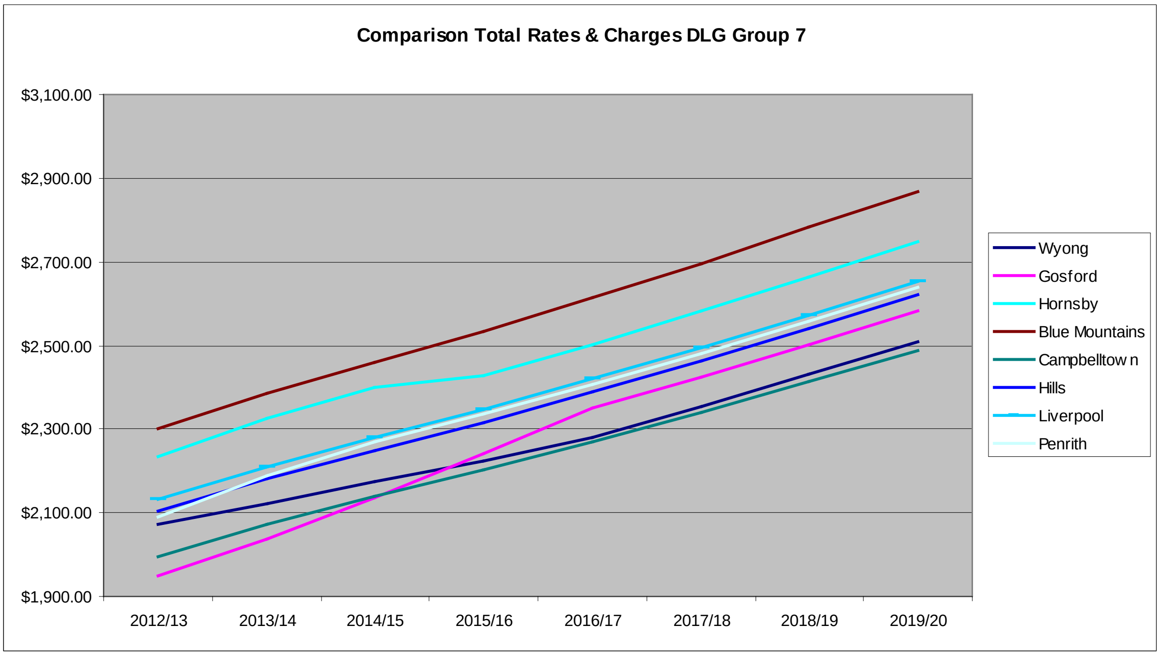
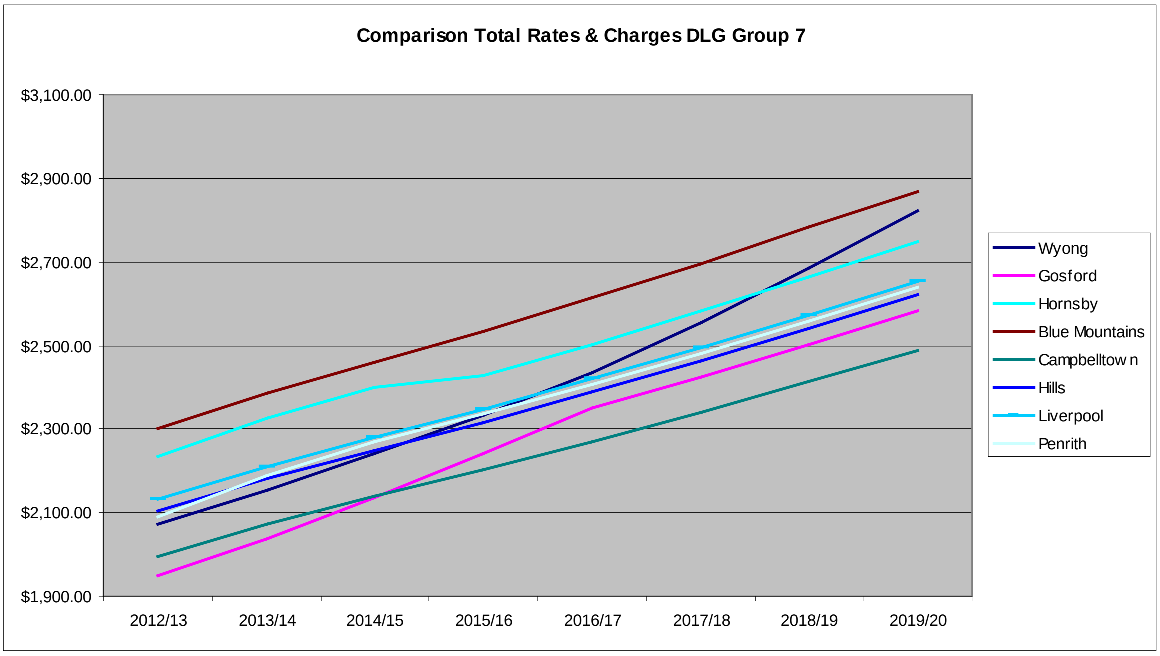


Figure 16: SV 6.9% – Average Residential Total Rates and Charges



5.3.6 Summary

When considering the community's capacity to pay for the proposed increase, Council has taken into account the impact of reducing or removing Council assets or services which currently contribute positively to improving the local economy, individual health, safety, amenity and social wellbeing for all residents. This contradicts the current aspirations of our community as detailed in Section 2.

As detailed in Section 4 of this application, we accepted community feedback that a 12.5% or a 9.5% variation was not considered affordable and therefore we have revised our financial planning to still fund the asset backlog so that our assets and services are retained for our community's benefit and safety.

We have also considered the total cost to ratepayers over the seven year variation period and believe that is within the community's capacity to pay. Council is committed to addressing genuine hardship cases and has the processes in place to do so where ratepayers experience difficulty in paying their bills.

A continued decline in the condition of Council assets and levels of service will have negative social and economic effects on the community. The risk to public safety will increase if we do not properly address the asset backlog. This could create greater long-term costs that will be unavoidable if asset failure leads to injury or death to members of the public.

Council considers the overall impact of the SV to be reasonable in light of the statistical data on the community's capacity to pay and the impact of the alternative outcomes a reduction in service would produce for the community.

5.4 Addressing 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 x 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 x No ☐

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

5.4.0 Existing Measures to Address Hardship

Wyong Council's approach to debt recovery has undergone radical change in the past two years and is now at the forefront of best practice in local government.

New policies, practices and payment options have been introduced with a strong emphasis on social justice and procedural fairness, developed in partnership with local financial counselling professionals who have described our new debt recovery process as "very fair" and "an extremely valuable policy".

"This will mean a win-win situation for both the Council and the financial hardship clients".
WNC Financial Counselling

The result has been a decrease in our outstanding debt ratio, achieved over the same period that we placed a short term moratorium on all legal activity.

5.4.0.1 Policy for Debt Recovery

Council currently provides a pensioner rate subsidy to 14,187 ratepayers.

We also currently have a *Policy for Debt Recov*ery which relates to the payment of rates, annual charges, water usage and sundry debt.

The policy is designed to maximise cash flow to Council while adequately identifying and managing cases of genuine financial hardship, and is in compliance with applicable legislation, including the Local Government Act 1993 and the Australian Competition and Consumer Commission (ACCC) Guidelines in relation to Debt Recovery 2005.

Our policy commits us to apply the following principles when undertaking debt recovery:

- Social justice
- Procedural fairness
- Integrity
- Confidentiality
- Compliance with relevant statutory requirements

While our adopted policy states that while Council will not, even in cases of genuine financial hardship, reduce rates or annual charges, it will consider alternative available approaches.

Ratepayers or sundry debtors who are unable to pay a debt amount owing to Council by the due date, can enter into an arrangement aimed at recovering all arrears and the current year's charges within the current financial year by negotiation. All such arrears, in the absence of an approved hardship application, must be paid in full within 12 months of the commencement of any arrangement to pay, or 24 months for eligible pensioners.

Where Council receives and assesses a case as being of genuine financial hardship, we will provide arrangements longer than 24 months on a case by case basis, which is a progressive approach within a local government context.

All payment arrangements can be made periodically - weekly, fortnightly or monthly - via direct debit. To support this policy, an instalment calculator has been developed and made publicly available which tells debtors what they need to pay for each period in order to be up to date in 12 months.

Where the ratepayer fails to adhere to a payment arrangement and has not contacted Council to amend the current arrangement, recovery action will commence. Changes to recovery procedures have meant that recovery action does not equal immediate legal action.

The credit management team now develop a list of at risk debtors and phone this group to offer assistance and explain options. In addition, the Credit Management Team Leaders spends one day per month out of the office visiting in person those on the at risk list who have not been contactable by telephone. Legal action is a last resort only for Council.

5.4.0.2 Policy for Hardship

In addition to the Debt Recovery Policy, Council has a dedicated Hardship Policy which defines how we will identify and support individuals experiencing genuine financial hardship.

A series of procedures are in place to support the implementation of the Policy and these have been externally validated by the Energy & Water Ombudsman NSW and were developed in consultation with local debt counselling organisations.

A ratepayer or customer is eligible for consideration for hardship assistance where:

- The rateable property is the principle place of residence, or
- The property is the principle place of residence of a dependant of the ratepayer and also suffering genuine financial hardship, or
- The property is owned by an aged pensioner and is vacant whilst the ratepayer is in short term care.

Our credit management team review all hardship applications and make recommendations for action to the Wyong Shire Council Hardship Committee.

5.4.0.3 Available Options

Available options for those experiencing financial hardship include:

- Deferment of outstanding amounts for a set period of time
- Arrangement of an appropriate extended payment schedule
- An appropriate combination of the above.

These options are described on our website and include:

- Direct Debit
- Internet
- BPay
- Telephone
- In Person
- Post

Additional mechanisms to address hardship include Centrepay. Centrepay is a free service for Centrelink customers who have the option of paying bills as regular deductions from their Centrelink payments. This option was introduced to Wyong in February 2013.

Council has also taken a position that no legal action will be taken in 2013 against any outstanding debtor who is also a pensioner, while we proactively encourage the take up of the new Centrepay option for this group.

We are currently negotiating with preferred legal services providers on the Local Government Procurement list to provide discounted legal services (i.e. below the allowable recoverable costs permitted) to ratepayers where legal action is required to recover outstanding debts where our engagement strategies have not been effective.

5.4.1 Summary

We have recently updated our policies for Debt Recovery and Hardship and increased the amount of available options for those experiencing financial hardship.

Our focus is on achieving arrangements to pay where payments in full are not financially achievable.

No legal action has been undertaken since November 2011, however changes to our practices have seen reduced consolidated outstanding debt ratios decrease from a high of 7.34% in 2007/08 to the current ratio in January 2013 of 6.06%.

Appendix:
2 – Draft Wyong Shire Council Strategic Plan 2013-2017
17 – Group 7 Comparative Data Analysis 2010/11
42 – Debt Recovery Policy and Hardship Policy

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.

In this section we explain the assumptions underpinning our planning processes in order to demonstrate that they are appropriate and realistic.

Key external indices and information used provide a planning base for our 4 Year DP and LTFP are:

- Consumer Price Index
- Bank Bill Swap Rate (BBSR) Bank Bill Index and current market investment rates
- Australian Bureau of Statistics Census data
- Australian Government Tax Reform Roadmap
- Australian Energy Market Operators Economic Outlook Information Paper for National Electricity Forecasting

- Australian Accounting Standard AASB 116 – Property Plant and Equipment

External advice has been sourced to determine:

- External analysis of the results of our community engagement on preferred service standards
- External engineering advice on the costs of remediating closed landfill sites.

Internal assumptions have been applied utilising business knowledge, forecasting and modelling systems and trend analysis to apply to our planning including:

- Application of the results of our community engagement process to service unit business planning
- Asset management system information, including SMEC Pavement Condition Index
- Expected increases in the Local Government Award (currently under renegotiation)
- Above CPI increases continuing for risk management
- No new external loans.
- Project costs have been based on unit costs as specified in contracts or available in the market.
- Replacement costs have been based on recent revaluations and are used to supplement costing assumptions.

6.1.0 Priorities and Levels of Service

For the development of the DP programs, under all three scenarios, assumptions on priorities for levels of service were sourced from the results of community engagement for the CSP (2008), the three stages of the Service Standards Review (2012) and individual service reviews.

This information was sought to appropriately and transparently determine the community's priorities and expectations around the level of service Council provides.

Community priorities are outlined in Sections 2 and 4 showing that our community prioritises investment into existing assets over investment in new assets, and has a strong preference for improving service standards related to transport, community connection and protection of the natural environment.

This prioritisation has been classified using Council's consultation for the CSP, with the aid of alternate consultation including the Central Coast Omnibus Survey conducted in 2010, which resulted in 49.7% of respondents suggesting that Council should invest more resources in better maintaining roads, bridges, footpaths and cycleways. This category was also the most prevalent in the 2012 Omnibus survey resulting in support from 51.3% of respondents. See *Section 4.1*.

These results are also consistent with those outcomes from Stage 1 of the Service Standards Review that unmistakably concluded that Shire inhabitants value roads as being the most important service that Council should focus on more. *Refer Section 4.1*.

These priorities, related to roads; community recreation and education; and the environment, have been given considerable focus in the draft 2013-17 Strategic Plan in addition to other essential services including waste, development and community safety. As described in *Section 3.3.1*, these community priorities, overlayed with engineering analysis and prioritisation tools drive the capital plans that underpin this SRV application.

Council's aim is to bring assets to at least a satisfactory condition. Special Schedule 7 and subsequent analysis quantifies the current gap between current asset conditions and a satisfactory condition as $130m for the General Fund.

There are two primary inputs to costing:

- Project costs – based on unit costs specified in contracts or available in the market

- Replacement costs - based on recent revaluations to supplement costing assumptions.

Capital plans have been constructed to address this gap. Engineering analysis and community needs jointly define the most urgent programs.

The move from a desired funding level available under a 9.5% rate increase to the 6.9% increase means that programs have been re-phased to later years. The programs are the same, but the timing of carrying out these programs has been re-phased in line with funding constraints.

Roads comprise the majority of programs to be funded under the SRV in line with community priorities. Roads comprise 73% of the capital to be funded by the SRV, followed by town centre improvements, open space and recreation, and natural assets.

6.1.1 Backlog Correction Path

As discussed in *Section 3.2 and 3.3.1*, the current Asset Management Strategy and subsequent Asset Management Plans identify a General Fund asset backlog of $130m.

The technical assumptions which underpin this amount, are:

- Our asset management system including the SMEC Paving Index

- Australian Accounting Standard ASB 116 "Property Plant and Equipment" which mandates that NSW councils value infrastructure, property plan and equipment at fair value and determines the treatment of depreciation. *Refer Section 4.2*.

Ideally, to fully correct our asset backlog over the maximum available special variation period of seven years, $19m per annum would need to be generated, which formed the basis for Scenario 2 – Full Variation at 9.5%.

The decision to apply for a 6.9% SV increase for seven years means this gap will need to be addressed at a slower rate. As noted in Section 3.3, an asset gap of at least $25m will remain at the end of seven years which is planned to be addressed across the following two to three years.

Council staff will continue to identify improvements, efficiency and financial gains to deliver best value.

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.

6.2.0 Long Term Financial Plan Assumptions

As explained in Part 4 of the *SP 2013-17*, the LTFP is a ten year plan that includes the one year operational plan and the 4 Year Delivery Program. It is dynamic in nature and revised annually to more closely reflect changing financial aspects impacting on the organisation.

Section 3.3 of this application discusses the alternate budget scenarios within the current draft LTFP.

This section will discuss assumptions that relate to Scenario 3 – Partial Rate Variation (6.9%).

Table 63: Key income statement escalations used for the Scenario 3

Category		2013/ 14	2014 /15	2015 /16	2016 /17	Thereafter
Income	Rates – Ordinary	6.9%	6.9%	6.9%	6.9%	6.9%^
	Rates – Special	6.9%	6.9%	6.9%	6.9%	6.9%^
	Annual Charges	4.0%	4.0%	4.0%	4.0%	4.0%
	User Charges - Specific	4.0%	4.0%	4.0%	4.0%	4.0%
	Fees & Charges – Other	5.0%	5.0%	5.0%	5.0%	5.0%
	Interest - Investments	4.5%	4.5%	4.5%	4.5%	4.5%
	Other Revenues	3.0%	3.0%	3.0%	3.0%	3.0%
	Operating Grants	3.0%	3.0%	3.0%	3.0%	3.0%
	Net Gains from Disposal	3.0%	3.0%	3.0%	3.0%	3.0%
Expenses	Staff Costs	3.3%	3.5%	3.5%	3.5%	3.5%
	Superannuation	3.3%	3.75%	4.25%	4.75%	5.25%*
	Materials & Contracts	3.5%	3.5%	3.5%	3.5%	3.5%
	Insurance	8.0%	8.0%	8.0%	8.0%	8.0%
	Utilities	10.0%	5.8%	5.5%	4.7%	4.7%
	Other Expenses	3.0%	3.0%	3.0%	3.0%	3.0%

^ Rate peg of 3.0% from 2020/21

** Superannuation aligns with the legislative changes*

Consumer Price Index (CPI)

A number of indices used in the LTFP have been based on the Reserve Bank of Australia's Consumer Price Index (CPI) Inflation forecast of 2-3% from the current Statement on Monetary Policy.

Council has considered this forecast and used a 3.0% escalation as the starting escalation in most LTFP income and expense categories.

Rate Increases and the Rate Peg

Our LTFP assumes the NSW base rate peg is 3.4% in 2013/14, and 3% in subsequent years. Our LTFP and 4 Year DP include three future funding scenarios depending on whether or not our application for a SV is successful.

Population growth and growth in the rateable base

The projected population growth within the Shire is set to rise by 12% between 2011 and 2021 (based on statistics from the 2011 Census and projected land releases)

In recent years, Council's rateable property base has grown by approximately 0.5% per annum and this escalation has been factored into the assumptions within the LTFP for income and expenditure projections. This conservative projection is based on Council's experience that previous growth has been lower than census forecasts. Until other information becomes available, this is a reasonable assumption.

Annual Charges

Annual charges are based on CPI (3%) plus anticipated shire growth (0.5%) plus a further 0.5% that may need to be charged to cover increased costs or further cost shifting (for example in the Environmental Planning Authority levy).

User Fees and Charges

As detailed in *Section 3.3.2,* Council benchmarks user fees and charges on an annual basis against other councils, government authorities and external service providers. Costs are recovered by product where possible. Council's budgeting process is to start with a 5% escalation and adjust individual fees where benchmarks, demand concerns, or regulatory caps are applicable.

Interest - Investments

Interest rates on investments are set at 4.5% representing current short term funding rates available through Approved Deposit Institutions. Rates are still recovery from the GFC and are not forecast to increase in the foreseeable future. Current available rates are around 4.5% with a downward tendency.

For context, our target is based on Bank Bill Swap (BBSW) plus ten basis points. The BBSW as at 7 March 2013 was 2.97% and our most recent deposit on 27 February 2013 with ING was at 4.29%.

Other Revenues and Net Gains on Disposals

Other revenues (such as rentals) and net gain on disposal of assets are both set at CPI of 3%. As discussed at *Section 3.3.2*, plans for the property development strategy, land disposals and other asset rationalisation have not yet been quantified. This estimate of CPI is reasonable for the foreseeable future as it is based on recent actuals.

Operating Grants

The assumptions for the LTFP include an escalation of 3.0% CPI increase to grants and contributions each year over the ten year horizon. This is based on trends from the last two years that illustrate low developer contributions due to market influences and relatively flat income levels from government grants (consistent with cost shifting data).

Staff Costs

The majority of employees, excluding senior designated officers, are remunerated in accordance with the minimum requirements of the Local Government (State) Award 2010. This Award will remain in force until 31 October 2013 and stipulates minimum increases in rates of pay for Council staff, including a 3.25% increase after 1 July 2013.

The assumption for 2013/14 includes this increase of 3.25%, plus a minor estimate of 0.05% increase for performance related increments in accordance with Clause 9 of the Award. The current Award is being renegotiated, and at this stage, a projected escalation of 3.5% per year has been used for the LTFP based on long term averages.

As Council is self-insured for workers compensation purposes, the projections have been based on current trends approximating 3.8% per annum. This figure is reviewed annually.

Council's Workforce Management Strategy will guide the future cost-effective provision of staff resources. It includes information related to staff costs which enables development of detailed staff budgets.

Superannuation

The LTFP includes legislative changes to the compulsory superannuation guarantee charge set to rise incrementally from a levy of 9% currently, to 12% by 2019/20.

Table 64: Superannuation incremental rate

Year	Super Guarantee Rate	Escalation (YOY Movement)
2003 to June 2013	9.00%	
2013/14	9.25%	0.25%
2014/15	9.50%	0.25%
2015/16	10.00%	0.50%
2016/17	10.50%	0.50%
2017/18	11.00%	0.50%
2018/19	11.50%	0.50%
2019/20 and onwards	12.00%	0.50%

Materials and Contracts

Materials and contract costs are escalated at 3.5% being the CPI target (3%) plus anticipated Shire growth (0.5%).

Insurance

Insurance is escalated at 8% based on advice from our internal risk team and verbal advice from our broker. This has not been validated or confirmed in writing but at $1.8m the expense is not material. Historical trends have been inconsistent and are volatile based on number of claims and factors outside Council's direct control, such as the level of vandalism and damage to community property.

Utilities

In 2013/14 a 10% escalation is applied. This is based on increases in tariffs included in the current contract which expires in 2013/14.

Outer year escalations are as follows:

2014/15	5.8%
2015/16	5.5%
2016/17	4.7%
Outer years	4.7%

Escalations for 2014/15 to 2016/17 are based on the Australian Energy Market Operator's (AEMO) Economic Outlook Information Paper, National Electricity Forecasting 2012 plus 3% p.a. CPI.

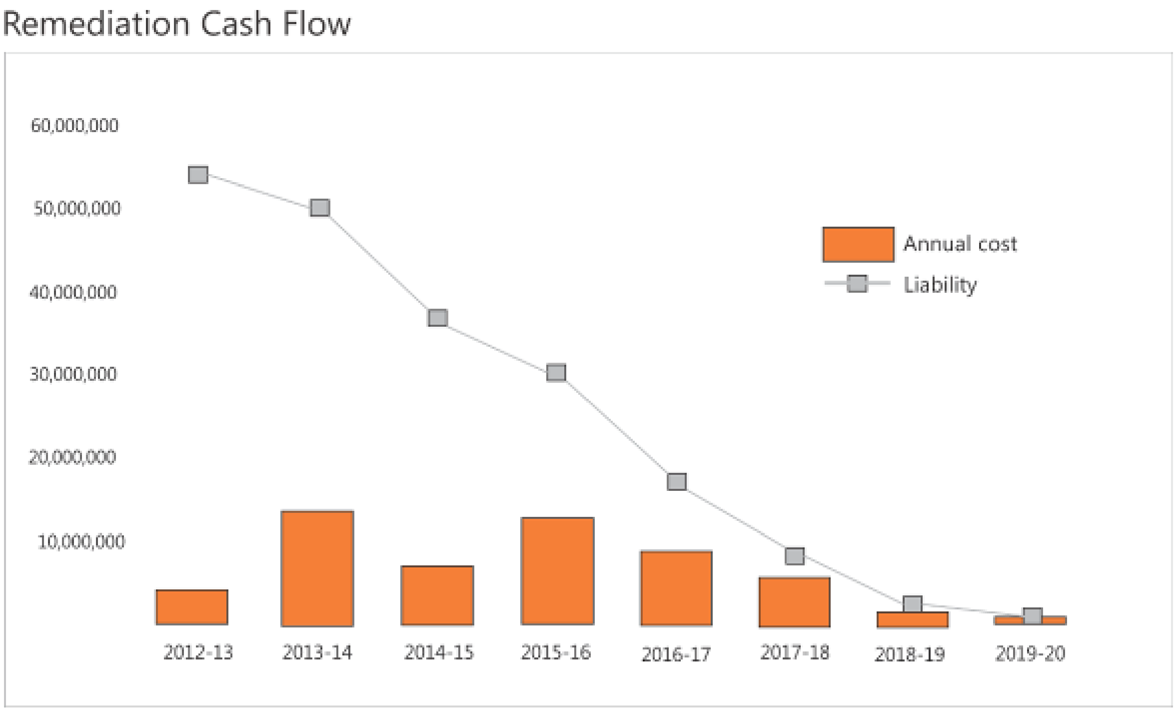
Other Expenses

Other Expenses (outside of Insurance and Utilities) are set at CPI of 3%. This appears reasonable as these would generally be subject to normal inflation trends.

Waste Remediation

Included in the cash flow assumptions of the LTFP are payments related to the rehabilitation of Council's closed landfill sites. This profile is based on the current remediation plan and is backed by engineering estimates on the timing and cost of remediation of individual tip sites. The graph below shows that the current remedial plan poses a significant impost to cash balances over the next seven years.

Figure 17: Remediation cash flow



Central Coast Water Corporation and Joint Services Business

The 4 Year Delivery Program included in the LTFP also contains estimates for the establishment of the Central Coast Water Corporation (CCWC) and Joint Services Business (JSB) as summarised in the table below. These figures are based on the current project budget. These costs below include budgeted amounts that relate specifically to the General Fund only.

Table 65: CCWC establishment costs

	2013/14	2014/15	2015/16	2016/17
Costs	$1,246,315	$1,878,900	$2,274,161	$1,342,950

Borrowings

No new external loans have been included in any Scenarios of the current LTFP. Refer section 3.3.2.3 for further discussion on Council's capacity to borrow further.

All existing fixed rate loans have been incorporated into the LTFP based on contracted rates and repayment terms, less subsidies where applicable (e.g. LIRS loan of $7.2m has subsidised interest). General Fund loans are due to mature by 2024/25.

6.2.1 Summary

Council has based its strategic planning assumptions on sound research and analysis of relevant data from reliable sources. We believe they are realistic and appropriate to Council's situation.

Appendix:
2 – Draft Wyong Shire Council Strategic Plan 2013-2017

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.

7.0 Overview

In the past three years, Council has vigorously pursued multiple initiatives aimed at improving productivity, and containing costs, as well as pursuing opportunities to increase revenue and reviewing our mix of services and standards of service.

This strategy commenced with the appointment of a new General Manager in May 2010 with the first major reform conducted in late 2010 arising from an organisation wide Service Delivery Review.

To consolidate ongoing effort, the reform agenda was included in the WSC Strategic Plan 2011-2015, the first under IP&R.

Between 2009/10 and 2011/12, these initiatives have achieved ongoing gains of $17.6m across our Consolidated Fund, and $24.8m in General Fund with future improvement planned to reduce Council's operating deficit to nil by 2014/15.

In the section below, we examine our expenditure profile - looking at each category of spending to demonstrate where we have continually strived to consider, implement and/or pursue, a range of cost containment and productivity opportunities to improve our financial position.

Of significant concern is that non-discretionary operating costs continue to increase at a rate higher than our operational revenue (see cost shifting discussion in *Section 3*).

Future cost containment and revenue generating strategies are being developed to enhance our ability to be financially sustainable beyond the period of the SV.

These are listed at the end of this section and explained in detail in *Section 3.3.2* (alternative options) with the intention that implementation of these strategies will help fund the gaps between:

- The $78m of incremental revenue generated under a 6.9% rate increase across seven years, and the $105m of planned incremental Capital expenditure ($27m shortfall between extra revenue and planned extra spend)

- The $105m of planned capital expenditure to close the gap and the existing $130m gap (the remaining asset gap of at least $25m)

- Any further deterioration in assets due to annual Capital spend not keeping up with increases in depreciation expense. This new asset gap is estimated at around $18m by that point

Our decision to apply for a SV has been taken after a full exploration of cost containment and productivity improvement options available to Council at this point in time.

7.1 Service Delivery Review

One of the first actions undertaken on the appointment of the current General Manager in May 2010 was a comprehensive analysis of service delivery across the total Council.

This review engaged all staff and councillors – via workshops, formal submissions, consultations and individual interviews – in generating ideas to improve service delivery and financial sustainability.

Note: the following data relates to the consolidated entity. Specific benefits to the General Fund arising from the Service Delivery Review could not be separately identified.

The review made 98 recommendations for action and additional savings, which were adopted by Council on August 25, 2010, and resulted in:

- Savings from reduced costs $2.6m annually (plus $700,000 in one off savings)

- Productivity increases saving $4m annually

- Increased revenue initiatives gaining $1m annually (plus $200,000 in one-off gains)

The main recommendations of the report included detailed initiatives to:

- Develop new revenue streams

- Ensure tight management controls over expenditure

- Ensure detailed service planning to achieve budget outcomes and asset expenditure

- Ensure assets ware aligned with services, and aligned to strategic objectives

- Ensure capital expenditure prioritisation aligned with strategic objectives

- Maximise cost savings available from shared services – especially with Gosford City Council.

The resulting changes were incorporated in a revision of the 2010/11 Management Plan and led to a decrease in the consolidated forecast deficit from $30m to $17.4m.

In that year, Wyong was the only Council in the Division of Local Government's Group 7 which reduced total expenditure over 2009/10, performing against the NSW trend. The initial impact of the Service Delivery Review reforms was an improvement in recurrent overall financial performance of $7.4 million per year.

The SDR saw the start of a major shift in organisational culture, reinforced by the introduction of IP&R, which sought continuous improvement in financial position and performance.

This cultural shift was further reinforced in 2011 when an awareness campaign was undertaken to further engage staff in the challenge to achieve continuous improvement in our financial performance. The remaining actions were incorporated into the WSC Strategic Plan 2012-2016.

The campaign, entitled Planning for the Future – Changing the way we do business, outlined the issues facing the organisation and how they had come about, and outlined four key pathways to pursue to help achieve financial sustainability:

- Boost and diversify income
- Reorder priorities
- Work smarter
- Change the way we manage our business.

7.2 Expenditure Profile and Improvements

In 2011/12, our total expenditure was $235.8m, of which $147.7m relate to General Fund operations..

Section 3.3.2.2 identifies our various categories of expenditure in General Fund and the amounts and percentages relating to these categories for the 2013/14 financial year. Section 3.3.2.2 also explains some of the constraints around cost reductions in each of these categories. Despite these constraints, significant cost reduction and productivity improvement has already been achieved, as described in the following sections.

7.3 Employee Costs

Since 2010/11, we have dramatically reduced our overall staff establishment by 8.7% as itemised in the table below.

Table 66: Staff establishment reduction

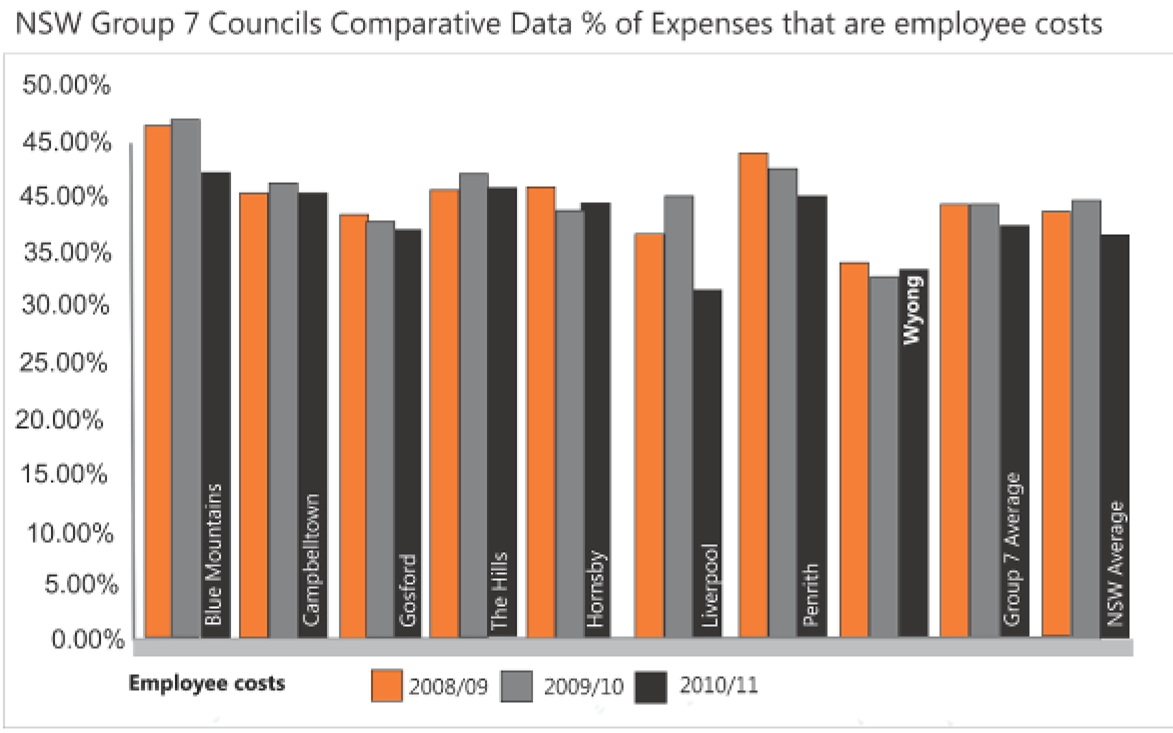
	2010/11	2011/12	2012/13	2013/14
Budget	1,150	1,094	1,069	1,050

This budget reduction was achieved mostly due to elimination in vacancies (participation traditionally between 90-95%) with no material impact on services to the community or industrial disputes. Comparatives between the rate peg and increases to the Award is provided in *Section 3.3.2*

While our employee costs represent a significant cost overall, we compare very favourably with the other seven councils in the Division of Local Government's Group 7. This is especially significant due to the diverse array of services that we provide.

While Wyong have the second highest number of FTE in Group 7, we have the second lowest employee costs as shown in the graph below (Note – data includes consolidated costs and FTEs).

Figure 18: Group 7 employee cost comparison



Strategies Undertaken to Reduce Employee Costs Since 2010

Council implemented a new organisational structure following the Service Delivery Review which provided a new focus on the community interface, reallocated resources across the business, and saw a comprehensive review of all casual, temporary and contractor positions.

Existing appointments where a strong justification for retention could not be proven via a business case were immediately ceased.

Significant reductions in direct labour costs have also been achieved through the introduction of stricter controls, new performance targets and a focus on containing labour costs including:

- New processes for the replacement of vacant positions and performance-related pay increases, requiring strong justification via preparation of a business case

- Approvals to undertake recruitment, appointments and pay increases elevated to Director level, or to the General Manager in instances of salaries above $70k/year.

- Performance indicators introduced in Service Unit Business Plans to reduce the total hours of accrued annual and long service leave hours by 10% per year until they are within acceptable levels (as defined by the NSW LG Award).

- Encouraged only skeleton staffing between Christmas and New Year since 2010 to reduce leave accruals at the same time as remaining operational.

- Increased use of external contractors across functions benchmarking showed that outsourcing was more cost efficient. Products such as footpaths and kerb and gutter are predominantly outsourced base on competitive tendering or quotations.

- Training costs have been reduced by $300k over the past three years through more strategic alignment and targeted allocation of funds.

- The complete suite of HR policies have been reviewed and tightened for cost efficiencies and consistency with the Award.

- Improved management of Work Health and Safety has ensured our Safety Management System meets all self insurer audit requirements to retain our self insurance licence.

In addition, new scheduling and workload reviews have been undertaken, which have resulted in reduced General Fund overtime costs of 13% on 2007 levels - from $2.9m (2006/07) to $2.5m (2011/12). For example:

- Staff in our Open Space Unit have restructured their teams so the majority of their work is undertaken on a proactive maintenance schedule. This has reduced the amount of inefficient reactive maintenance work increasing the level of service and reducing labour hours.

- Introduction of a more equitable 6 day roster with penalty rates (instead of overtime) for 4 of our 5 library branches.

- Cessation of Lake Haven Library Agreement in 2011 with all employees moving to the LG Award for consistency and fairness, maintaining a 7 day roster and eliminating the need for regular overtime payments.

- Replacing 13 casual library positions with 6 full time relief branch officers, providing greater staff stability and reducing entitlement risks associated with casual employees.

The introduction of new technology and equipment has been a significant factor in the realisation of productivity improvements, freeing up staff resources for other purposes or reductions in FTE, including:

- New mobile devices and tablets have enabled lifeguards, rangers and other operational staff to record data and access information in the field, reducing travel times, streamlining the data entry process, and freeing up administrative staff for other tasks.

- Self-service counters for book borrowing have been introduced at all five libraries as well as new self-service customer service kiosks at libraries and Council's administrative building redirecting staff time away from transactional tasks that do not add value.

- Investment in a new, high output lawn mower that cuts grass quicker, increased the level of service in parks by 42% with each park mowed every three weeks in summer, compared with only 80% of parks mowed every five weeks previously.

- Purchase of new weed spray equipment which can operate in strong winds has increased outputs by over 50% by reducing lost time occurring from environmental factors which previously required operators to stop and change chemicals.

- Improved our Return to Work (Workers Compensation) management and saved over $200k since 2009/10.

- Changes to our tree assessment procedures has streamlined staff process and reduced printing by 6,500 sheets of paper per year.

- Transfer of staff from Roads and Drainage maintenance functions to the Open Space Unit to centralise vegetation control and achieve productivity gains through economies of scale/programming with other nearby works and improved use of equipment.

- Reduced the number of staff in road construction crews from 5-6 person fixed numbered gangs, to 2-5 person gangs, with the actual number dependent on the individual project, and the use of 1-2 person crews for general maintenance tasks.

A further restructure was undertaken following the Council election in September 2012. This restructure focused on aligning the organisation with community priorities related to land management and waterways arising from the Service standards Review, as well as streamlining corporate services. This restructure provided the opportunity to further analyse vacancies and needs, and as a result the projected labour profile for 2013/14 is 1050 FTE.

7.4 Borrowing Costs

By 30 June 2013 we will have $7.4m of General Fund fixed rate loans. The significant bulk of this amount is a Long Term Infrastructure Renewal Scheme (LIRS) loan where a loan subsidy is granted by the NSW Government.

There is no intention to borrow further at this time as explained in our SP and in Section 3.3.2 however we will apply for further funding under the LIRS program as the subsidised cost of funding makes investment appealing.

7.5 Materials and Contracts

Materials and contracts make up our second largest category of operating expenditure totalling $26.7m in 2013/14, and representing 17% of General Fund costs.

Materials and contract costs associated with General Fund operations relate specifically to the following:

- Garbage collection

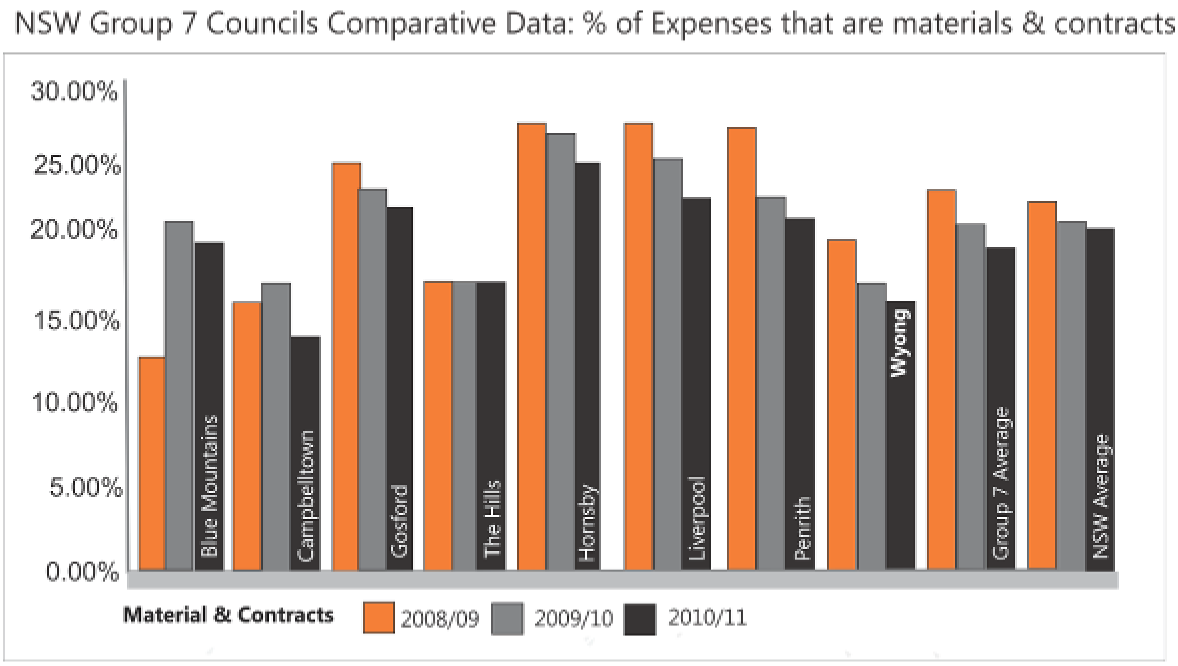
- External equipment hire and fuel

- Information management applications

- Roads

The graph below shows that Wyong's consolidated expenditure on Materials & Contracts has been below the Group 7 average and the State average (DLG Comparative Data 2010/11).

Figure 19: Group 7 materials and contracts expense comparison



Strategies undertaken to reduce materials and contracts costs since 2010

The 2010 Service Delivery Review introduced reform across a number of areas which had a significant impact on the overall expenditure on materials and contracts including strategic planning, performance monitoring, asset management, project assessment and approvals.

The subsequent organisational restructure also created a new service unit which brought contract management and purchasing together in the new Infrastructure and Operations Directorate.

In 2011, a Section 430 report by the Division of Local Government on Council's processes for the engagement of consultants included a number of recommendations that have subsequently been implemented to improve practices in project management, contract administration and procurement. The improved accuracy of our asset management database, including condition assessment and cost estimation, has also contributed to better project planning and management.

For example:

- Changes have been made to our procurement and contract management procedures to ensure compliance with DLG requirements. These included the revision of manuals and staff delegations to ensure tighter control and efficiency in the procurement process.

- The total spent on consultants has been reduced by \$2.7m from the peak at \$8.6m in 2009/10, representing a 32% reduction to \$5.9m in 2011/12.

- In 2011/12 a new model for project assessment was adopted by Council. All new projects are now rated by an interdisciplinary Project Assessment Team (PAT), according to a quadruple index of factors (refer section 3.3.1). Council derived these factors from its community strategic vision: economic viability, community benefit, environmental impact and governance. This tool results in robust project management, diversity of staff engagement in the project process and, most importantly, community confidence – that only the right projects are built at the right time and in the right way."

- The PAT has also recently revised and enhanced business case documentation and focussed on whole of life costing and rigorous options analysis

- New purchasing processes have improved the cost effectiveness of purchasing outcomes with annual savings of $2,500 on recycled paper products, $50,000 on motor vehicles, and $10,000 on turf supplies achieved since 2010/11.

Further reduction in the cost of materials and contracts has been achieved by:

- Introduced new in-situ stabilisation technology for road renewal which recycles the majority of the existing road pavement resulting in faster construction times, reduced waste and a reduced need to order new road materials. In 2009/10 patching costs were $118 per m^2, in 2010/11 $27.25 m^2 and in 2011/12 21m^2$.

- The creation of a new position of Legal Counsel, reducing reliance on external legal advice costs by 79% since the peak in 2009/10 from $2.4m to $0.5m in 2011/12.

- A review of printing costs resulting in the centralisation of printer resource and new, more efficient machines introduced.

- The introduction of new software and processes for preparation of Council's fortnightly Business Papers has saved $85,000 each year in printing costs and a permanent reduction of one FTE.

- Purchase of new tree chipping equipment resulting in service timeframes reduced from 28 to 10 days. All tree chips are then reused in our parks resulting in reduced tipping fees and external mulch expense.

- A change to the vehicle replacement procedure for light vehicles created a one-off saving $2.1M during 2011/12.

- Council used an in-house design for construction of two boat ramps. The typical boat ramp was solid construction which had to be laid in-situ and cost approximately $120K. Council's design using concrete 'planks' that are chained together cost approximately $60K.

- The introduction of geotechnical investigations and the evaluation and selection of the best road pavement rehabilitation treatment for each application based on sound engineering principles and cost/benefit analysis.

- Increased plant and equipment utilisation by efficient scheduling of work in close proximity locations, resulting in lower unit costs and increased volumes (due to reduced down time from travel between locations).

- Significant reduction in waste handling and disposal costs through following the waste hierarchy of avoidance in the first instance, followed by recycling and disposal as the last option.

- Council participated in the Local Government Procurement Roadmap Program as one of 17 NSW councils undertaking the exercise. This program entailed an end to end review of procurement activities and provided us with a relative ranking of our performance compared to the other councils. Council is performing strongly when compared to other participating councils and has well developed procurement processes to ensure best value for money and compliance with legislative requirements. A key outcome of the program was the development of a 2-year Roadmap outlining improvements in the procurement function for Council. An early initiative from this has been a reduction in the value of Council's stock inventory by some 15%, representing a savings in stock at hand of approximately $200k.

7.6 Depreciation and Amortisation

Council's depreciation expense that relates to General Fund assets is forecast to be $26.0m in 2013/14 based on delivery of the current capital works program. This accounts for 17% of General Fund operating expenditure.

Strategies undertaken to reduce depreciation costs since 2010

In 2011/12 assets such as waste facility cells, library books and playgrounds were reviewed and depreciation rates adjusted to align with asset lives and benchmark rates. This resulted in a more accurate depreciation expense.

Although depreciation is a non-cash item, as discussed in Section 3.3.3, to ensure that the asset sustainability ratio is at an acceptable level and that we are investing sufficiently into ensuring our assets are held at a satisfactory condition, appropriate funds need to be spent so that we don't generate backlogs in the future, or exacerbate the backlog.

7.7 Other Operating Expenses

Other expenses account for $32.1m or 21% of General Fund operating expenses and include costs associated with:

- EPA Waste levy
- Electricity (nearly two thirds relates to street lighting)
- Insurance
- Telecommunications
- Tourist Park Management
- Contributions for Town Centres

Strategies undertaken to reduce other operating costs since 2010

- EPA waste levy has been passed through to consumers in the waste management levy and in tipping fees. While this has reduced tipping volumes and increased illegal dumping, the cost of the EPA levy is recouped
- As noted in *Section 3.3.2.1*, electricity costs have experienced double digit growth over the past 6 years. The current electricity contract is due to expire in 2013/14 and is currently being tendered. It is anticipated that this tender will result in reduced escalations of electricity costs.
- Lights in Wyong's civic centre and council administration office are being replaced by new ones that use less electricity. This has resulted in savings of $27,000 a year,

- Use of LED lights in Street Lights has reduced costs

7.8 Strategies to Achieve Further Cost Containment and Productivity Improvement

The process of identifying efficiency improvements, cost savings and revenue opportunities continues and has been built into the annual IP&R process as part of a culture of continuous improvement.

Future savings both during and after the seven year duration of the SRV are fundamental to ensuring our financial sustainability. As explained in *Section 3*, the incremental revenue derived from a 6.9% increase is significantly lower than the amount of Capital planned to be spent, and there will still be a significant asset backlog to address at the end of the seven year period.

7.9 Summary

Prior to considering an increase in rates, Council has undertaken an extensive review of activities to improve productivity and contain costs.

Commencing with an organisation-wide Service Delivery Review in 2010, these combined achievement in over 2009/10 equals ongoing gains of $17.6m across our Consolidated Fund, and $24.2m in General Fund.

Our overall staff establishment numbers have reduced by 8.7% since 2010/11 and while Wyong continues to have the second highest number of FTE in Group 7, we have the second lowest employee costs.

Major changes to our procurement and contract management have been implemented since 2011, with the total amount spent on consultants reduced by 32%, and costs in some areas, for example road patching, reduced by over 75%.

Future savings will be required in order to fund the following gaps and shortfalls

Item	Amount
7 Year Incremental Revenue generated by a 6.9% SRV	$78m
7 Year Incremental Capital program to address the asset gap	(-$105m)
Gap Between Incremental Revenue and Incremental Capital Spent	**(-$27m)**
Existing Asset Gap	(-$130m)
7 Year Incremental Capital program to address the asset gap	$105m
Remaining Asset Gap at the end of seven years	**(-$25m)**
Total Gaps to resolve	**(-$52m)**

Major strategic initiatives being explored include:

- Central Coast Joint Services Business
- Economic Development
- Strategic Sourcing

- Productivity gains
- Service and Asset Rationalisation

These initiatives are analysed in detail within *Section 3.3.2*.

Appendix:
2 – Draft Wyong Shire Council Strategic Plan 2013-2017
17 – Group 7 Comparative Data Analysis 2010/11
23 – Service Delivery Review Report
43 – Planning for the Future Article
44 – Response to DLG on S430 Recommendations
45 – Q2 Report 2012/13

8 Other information

8.1 Previous Instruments of Approval for expiring SRVs

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.

We have no existing SRV due to expire during the next seven years.

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.

A list of proposed works have been identified that will be undertaken with the funds raised via the SRV.

This list was made available to the community during the final consultation period in January/February 2013. The information contains specific details of the type of work proposed, the location of the work, the estimated cost and the year in which year the work would be undertaken.

8.2.0 Strategic Plan

From 1 July 2013, we will clearly and separately identify the following items within our Draft WSC SP 2013-2017, specifically the Operational Plan and 4 Year Delivery Program:

1. The amount of income to be raised that year from the SRV

2. The amount of expenditure proposed to be spent on works that relate to the SRV and an explanation of any differences.

3. A detailed list of SRV works scheduled to be undertaken. This would include any carry-over works from previous years and details of any changes in the priorities of works.

4. A reconciliation against the original list of SRV works that was made available to the community during the January/February 2013 consultation period. This would show which items from the original list were complete, revised estimates of cost and timing for outstanding items.

5. Our Asset Management Strategy would identify the progress being made in asset condition as a result of the SRV works and any reasons for variations in priorities.

6. Our Long Term Financial Strategy would identify the current and proposed changes in Council's financial position as a result of the SRV funding.

7. Proposed productivity savings will be identified within Service Unit Business Plans and internal reporting systems will monitor the progress of these savings.

8. Appropriate performance indicators to support items 2 and 3 will be included in the *Operational Plan* and *4 Year Delivery Program*.

This information would be available during the public consultation period on the Strategic Plans from 2014 to 2021.

Once adopted, the IP&R documentation is available to the public via our website and in hard copy or CD at the Council Chambers and libraries.

8.2.1 Quarterly Reporting

Progress against the adopted Operational Plan, and budget, are formally reported to Council on a quarterly basis.

Based on points 1 to 4 above, progress against each of the scheduled works funded by the SRV and the level of productivity savings achieved, will be reported to Council on a quarterly basis. This will include the performance indicators as per item 8 above. A clear explanation of any variance from the agreed program will be provided.

This quarterly information will be available to the public via our website and in hard copy form at Council Chambers and libraries.

8.2.2 Annual Reporting

Our Annual Report will show the progress against each of the scheduled works funded by the SRV and the level of productivity savings achieved. Clear explanation of any variance from the agreed program will be provided.

The Annual Report is made available on our website and in hard copy and CD at Council Chambers and libraries.

8.2.3 Other

Information from the adopted quarterly reports will be distributed through Council's community engagement networks. Apart from publishing the information on Council's website, the information will be sent electronically to other community networks such as Council's resident e-panel, precinct committees and other similar groups.

Regular media releases and use of existing mail-outs to ratepayers will also be used as appropriate. Council will continue to undertake community satisfaction surveys as a way to test the community's response to the works being undertaken.

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.

ORDINARY MEETING HELD ON 27 FEBRUARY 2013

RESOLVED on the motion of Councillor EATON and seconded by Councillor WEBSTER:

1 That Council make a submission to the Independent Pricing and Regulatory Tribunal for a S508A Special Rate Variation for 6.9 % (including rate cap) for a period of seven years commencing 2013/14 financial year by 11 March 2013.

2 That Council promote this decision and provide a link to the Independent Pricing and Regulatory Tribunal website on Council's website once the submission has been made.

FOR: COUNCILLORS BEST, EATON, GREENWALD, NAYNA, TAYLOR, TROY AND WEBSTER

AGAINST: MATTHEWS AND VINCENT

Appendix:

9 – Council Report – 27 February 2013

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)	N/A
Community feedback (including surveys and results if applicable)	☒
Hardship Policy (if applicable)	☒
Productivity/cost containment examples	☒
Past Instruments of Approval (if applicable)	N/A
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): Michael Whittaker

Signature Date: 11 March 2013

Responsible Accounting Officer (name): Stephen Naven

Signature Date: 11 March 2013

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