

Independent Pricing and Regulatory Tribunal
New South Wales

Special Variation Application Form – Part B

For 2019-20

Insert Name of Council: Dungog Shire Council

Date Submitted to IPART: 11February, 2019

Council Contact Person: Coralie Nichols



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ISBN 978-1-76049-268-7

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Tribunal Members

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chair

Mr Ed Willett

Ms Deborah Cope

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

Scott Chapman (02) 9290 8449



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1 Introduction

IPART will assess each application against the criteria set out in the Office of Local Government's (OLG) *Guidelines for the preparation of an application for a special variation to general income* (the [Guidelines](#)). Councils should refer to these Guidelines before completing this application form.

Each council must complete this Part B application form when applying for a special variation to general income either under section 508(2) or section 508A of the *Local Government Act 1993* (NSW).

In addition, councils must complete the Part B form with the Part A (spreadsheet) form for both section 508(2) or section 508A applications. The Guidelines also require the council to have resolved to apply for a special variation. You must attach a copy of the council's resolution. IPART's assessment of the application cannot commence without it.

If the proposed special variation includes increasing minimum rates above the statutory limit in the same rating year/s, the council may submit a combined special variation and minimum rate application (see Chapter 5 for circumstances where a combined application may be submitted). However, this must be clearly identified and addressed in the special variation application. A separate Minimum Rate application form (Part A and Part B) will need to be submitted where a council proposes increases to its minimum rates above the statutory limit for the first time, without increasing other ordinary rates in the same rating year. Councils are encouraged to discuss their proposed application with IPART as soon as possible.

As outlined in the Guidelines, new councils created in 2016 (apart from Mid-Coast Council) will be ineligible for special variations for the 2019-20 rating year.

1.1 Completing the application form

This form is structured to provide guidance on the information we consider is necessary for us to assess a special variation application. To complete the form, the council will need to respond to questions and insert text in the boxed area following each section or sub-section.

The amount of information that a council provides will be a matter of judgement for the council, but it should be sufficient for us to make an evidence-based assessment of the application. Generally, the extent of the evidence should reflect the size of the variation sought. More complex applications or requests for a high cumulative percentage increase should be supported by stronger, more extensive evidence.

Councils may submit additional supporting documents as attachments to the application (refer to section 8). These attachments should be clearly cross-referenced in Part B. We prefer to receive relevant extracts rather than complete publications, unless the complete publication is relevant to the criteria. If you provide complete documents when only an extract is relevant, we may ask you to resubmit the extract only. (You should provide details of how we can access the complete publication should this be necessary.)

We publish videos and fact sheets on how IPART assesses special variations and on the nature of community engagement for special variation applications. These will assist in preparing the application. The latest videos and fact sheets on these topics are available on [IPART's website](#).

We may ask for additional information to assist us in making our assessment. If this is necessary, we will contact the nominated council officer.

This application form consists of:

- ▼ Section 2 – Preliminaries
- ▼ Section 3 – Assessment criterion 1
- ▼ Section 4 – Assessment criterion 2
- ▼ Section 5 – Assessment criterion 3
- ▼ Section 6 – Assessment criterion 4
- ▼ Section 7 – Assessment criterion 5
- ▼ Section 8 – List of attachments
- ▼ Section 9 – Certification.

1.2 Notification and submission of the special variation application

Notification of intention to apply

Councils intending to submit an application under either section 508(2) or section 508A should have notified us of their intention to apply, via the Council Portal, by Friday 30 November 2018.

Any councils that did not notify but intend to apply for a special variation for 2019-20 should contact us as soon as possible.

Dungog Shire Council wrote to IPART on the 21 November, 2018 advising that Council was intending to apply for a 508A (permanent) Special Rate Variation option under the *NSW Local Government Act 1993*. In particular, Dungog Shire Council advised that it was proposing a tapered scenario in relation to the SRV, in order to address financial sustainability and maintain essential community infrastructure including our road network, timber bridges and community buildings, as follows:-

- Years 1 & 2 = 15% (2.5% rate cap plus 12.5% SRV)
- Years 3, 4 & 5 = 10% (2.5% rate cap plus 7.5% SRV)
- Years 6 & 7 = 6% (2.5% rate cap plus 3.5% SRV)

The proposed tapered approach represents a cumulative increase in rates of 97.8% over 7 years, including the cumulative increase of 18.9% from the rate peg increase.

Online submission of applications

All councils intending to apply for a minimum rate increase must use the [Council Portal](#) on IPART's website to register as an applicant council and to submit an application.

You are required to submit the application, via the Council Portal, by **Monday 11 February 2019**.

The [User Guide](#) for the Portal will assist you with the registration and online submission process. If you experience difficulties please contact:

▼ Arsh Suri - Arsh_Suri@ipart.nsw.gov.au or 02 9113 7730

File size limits apply on the Council Portal to each part of the application. For this Part B application form the limit is 10MB. The limit for supporting documents is 50MB for public documents and 50MB for confidential documents. We generally request supporting documents of the same type to be combined and most supporting document categories have a maximum number of 5 documents allowed. These file limits should be sufficient for your application. Please contact us if they are not.

We will post all applications (excluding confidential content) on the IPART website. Confidential content may include part of a document that discloses the personal identity or other personal information pertaining to a member of the public or whole documents such as a council working document and/or a document that includes commercial-in-confidence content. Councils should ensure that documents provided to IPART are redacted so that they do not expose confidential content.

Councils should also post their application on their own website for the community to access.

2 Preliminaries



Overview: Dungog Shire – *Life as it Should Be*

The Local Government Area of Dungog is part of the Hunter Region and the Lower Hunter Sub-Region and is bound by the Mid Coast Council region to the north-east, Singleton Shire to the west, Upper Hunter Shire to the north-west, and by Port Stephens Shire and the City of Maitland to the south.

Dungog Shire Council has nine (9) elected Councillors and three Wards. The current Mayor is Councillor Tracy Norman and Councillors include Robert Booth, John Connors, Steve Low, Jan Lyon, Kate Murphy, Digby Rayward (Deputy Mayor), Greg Riley and Glenn Wall. The current Council was elected in September, 2017.

The Dungog Shire has two principal rivers, the Williams in the east of the Shire and the Paterson in the west. Both are tributaries of the Hunter, and both traverse the Shire in a general north-west to south-east direction. The Williams and Paterson Rivers drain from the Barrington Plateau and contribute over 40% of the flow of the Hunter. Lostock Dam was constructed on the Paterson River in the 1970's to regulate flow and prevent lack of water in drought. Chichester Dam was constructed between 1915 and 1926 as the Hunter's first dedicated drinking water storage system.

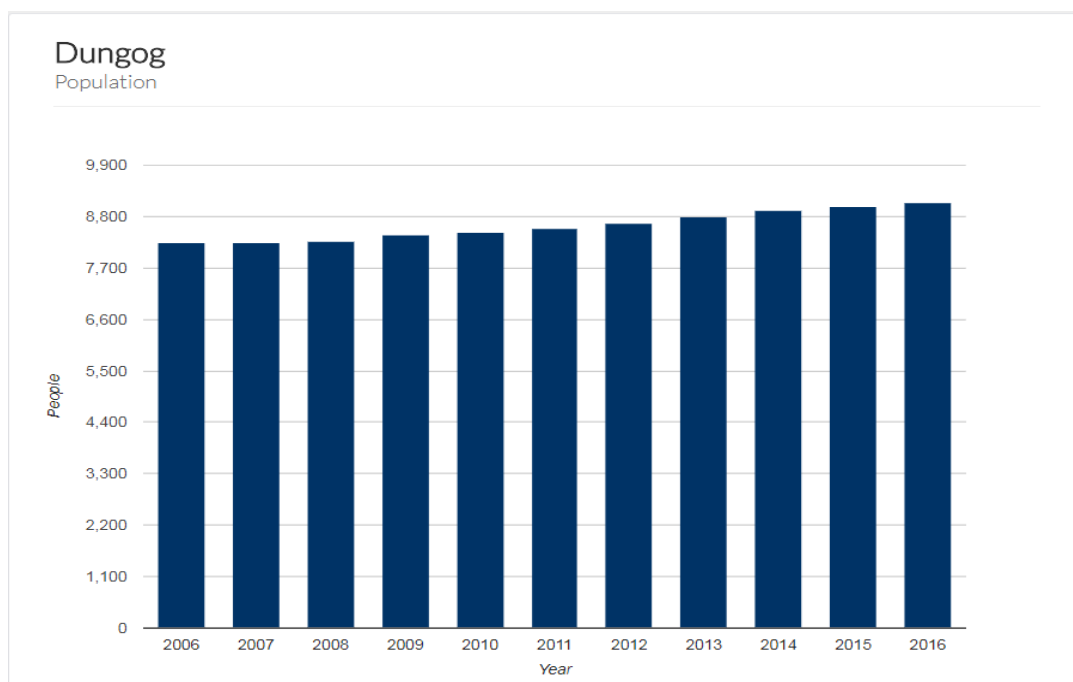
Nestled between the Pacific and New England Highways, Dungog Shire is an easy hour's drive from Newcastle and 2 hours from Sydney's northern suburbs via the M1 Pacific Motorway.

The Dungog Shire covers an area of 2248 square kilometres. Situated in the Barrington Tops region, the Shire has a population of 8,975 as at the 2016 Census; an increase of 475 people from the previous Census period. The Shire consists predominantly of very rugged to hilly country which becomes less rugged from north to south. The major population centres within the Shire include:

- ✓ Clarence Town
- ✓ Dungog
- ✓ Gresford and East Gresford
- ✓ Martins Creek
- ✓ Paterson
- ✓ Vacy

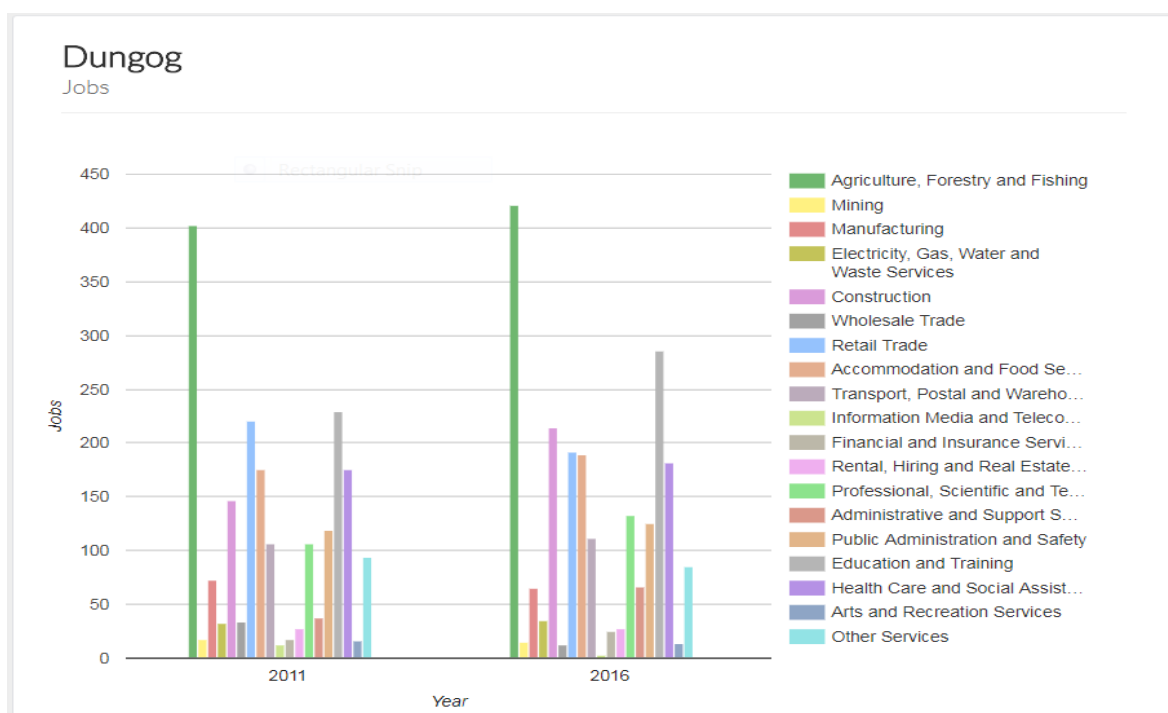
The population of the Dungog Shire continues to experience growth as can be see in the table below.

Graph 1: Population change Dungog Shire 2006-2016



The graph below shows the number of people employed by businesses/organisations in each of the industry sectors and the changes between 2011 and 2016. Growth has occurred in Agriculture, Forestry and Fishing, Wholesale Trade, Accommodation and Food Services and Construction. There has been a drop in jobs in Retail Trade, while Health Care has remained static.

Graph 2: Business/Industry Sector Changes 2011-2016



Agriculture, Forestry and Fishing is Dungog Shire's top industry in terms of employment, with regional exports of \$105M from these industries accounting for 50% of the Shire's total regional exports of \$209M.

Graph 3: Regional exports Dungog Shire

Dungog

Regional Exports by Industry

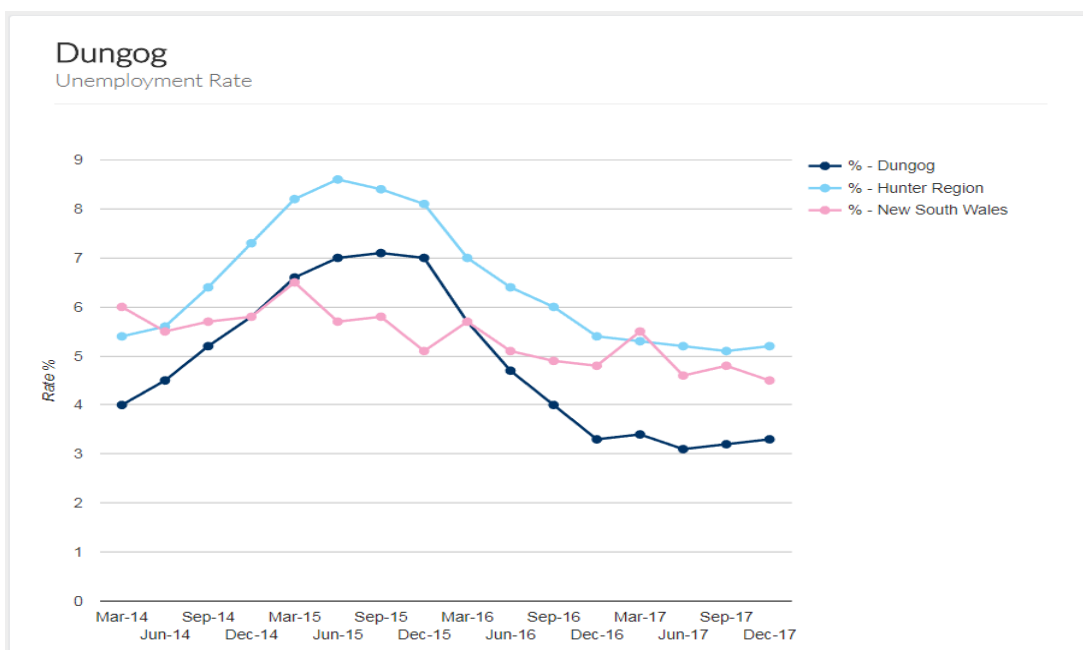
The value of regional exports generated by the Dunggg economy is estimated at \$209.400 million.

► All Industries - All Zones

Industry	Regional Exports
Agriculture, Forestry & Fishing	\$104.868 M
Manufacturing	\$23.249 M
Construction	\$15.144 M
Electricity, Gas, Water & Waste Services	\$11.567 M
Transport, Postal & Warehousing	\$10.804 M
Education & Training	\$9.345 M
Accommodation & Food Services	\$7.940 M
Mining	\$7.781 M
Professional, Scientific & Technical Services	\$5.301 M
Financial & Insurance Services	\$4.918 M
Administrative & Support Services	\$2.117 M
Other Services	\$1.525 M
Rental, Hiring & Real Estate Services	\$1.516 M
Public Administration & Safety	\$1.395 M
Retail Trade	\$0.829 M
Wholesale Trade	\$0.607 M
Information Media & Telecommunications	\$0.291 M
Arts & Recreation Services	\$0.108 M
Health Care & Social Assistance	\$0.094 M
Total	\$209.400 M

In the Dungog Shire there are 4118 people in the labour force (full and part time) and the unemployment rate is 5.5%, lower than the Hunter Region and NSW.

Graph 4: Unemployment Rate Dungog Shire



The Shire's population is growing and NSW Planning projects that our population will continue to grow into the future.

Table 1: Projected Population - Dungog Local Government Area, 2021-2036

Year	Total Population ^a	Growth Rate ^b (%)	Growth Index (2006=100)
<i>Projected</i>			
2021	9,200	0.61	109
2026	9,400	0.59	112
2031	9,700	0.55	115
2036	9,900	0.51	118

Source:

Projections – NSW Department of Planning

a Population numbers are for 30th June of the year shown.

b Annual average growth rate over the five year period ending 30th June of the year shown

Table 2: Projected Population - Dungog Local Government Area by age group, 2021-2036

Year	Population ^a in age group			
	0-14	15-39	40-64	65+
<i>Projected</i>				
2021	1,800	2,300	3,200	1,800
2026	1,800	2,300	3,200	2,100
2031	1,900	2,300	3,200	2,300
2036	1,900	2,300	3,200	2,500

Source:

Projections – NSW Department of Planning

a Population numbers are for 30th June of the year shown.

The above tables which have been extracted from NSW Planning statistics also reflect that the Shire has an ageing population and like many rural communities when children leave school there is a tendency for them to move away from home for further education or for employment opportunities. Interestingly through the consultation process with Dungog High School students it was noted that they want the opportunity to move away and experience other places and many of them also want to come back to the Shire when they grow older.

2.1 Focus on Integrated Planning and Reporting

Councils must identify the need for a proposed special variation to their General Fund's rates revenue as part of their Integrated Planning and Reporting (IP&R) process. The IP&R documents will need to be publicly exhibited and adopted by the council prior to submitting an application to us. Also refer to section 6 for a more detailed explanation.

The key IP&R documents are the Community Strategic Plan, Delivery Program, Long Term Financial Plan and, where applicable, the Asset Management Plan. A council's application

may also include supplementary and/or background publications used within its IP&R processes. You should refer to these documents to support your application for a special variation where appropriate.

The current Dungog Shire Council was elected in **September, 2017**. This Council is serving a 3 year term. The lateness of the election at Dungog was due to amalgamation deliberations at the State Government level.

Council has met the requirements for the production and public exhibition of Integrated Planning and Reporting (IP&R) documents. This documentation has clearly articulated the need, purpose and justification for a Special Rate Variation and has included provision for community submissions and feedback.

Full details of Council's IP&R documentation and processes are attached in relevant sections of Council's application, however, a brief description is provided of the primary documentation in the table below.

Dungog Shire Council Community Strategic Plan 2030	<p>Council's first Community Strategic Plan (CSP) was adopted in June 2012.</p> <p>A CSP review was undertaken by the incoming Council in 2018, placed on public exhibition in May 2018 and adopted in June 2018. The CSP was further reviewed in November, again placed on public exhibition and amendments adopted in December 2018.</p> <p>A number of strategies within the CSP commit Council to a financially sustainable future through a focus on long term asset management planning and increased revenue. In particular the goal areas of "Recreation and Open Space" "Public Infrastructure and Services" and "Governance and Finance" (Attachment 1: Page 18-23)(Full document available at: https://www.dungog.nsw.gov.au/council/council-documents/dungog-shire-community-strategic-plan) include strategies aimed at a Special Rate Variation to fund public infrastructure maintenance and upgrades in the Shire with a keen focus on the road and bridge network.</p>
Dungog Shire Council Operational Plan 2018-2019	<p>On the 28 June, 2018 following a public exhibition period, the incoming Council adopted its Operational Plan (OP) 2018-2019. The OP clearly articulated that 2018-2019 would be a financially challenging year and that the Council was committed to a process of discussion with</p>

	<p>the community to determine service levels, funding priorities and planning for a sustainable future as a stand alone Council, including investigating possibility of applying for a Special Rate Variation. (See Attachment 2 – Pages 4, 27, 36, 37, 39) (Full document available at: https://www.dungog.nsw.gov.au/council/council-documents/dungog-shire-council-operational-plan)</p>
<p>Dungog Shire Council Delivery Program 2018-2022</p>	<p>On the 28 June, 2018 following a public exhibition period, the incoming Council adopted its Delivery Program 2018-2022 which outlines the key activity areas to be pursued over the next 4 years to give effect to the content of the Community Strategic Plan. The Delivery Program was again reviewed and placed on public exhibition in November, 2018 with adoption of the revised document in December, 2018. A minor amendment to the Delivery Program was made by Council for the purposes of aligning IP&R documentation in February 2019 prior to the submission of this application. (See Attachment 3: Pages 3, 35, 47, 51)</p>
<p>Dungog Shire Council Resourcing Strategy 2018-2022</p>	<p>Together with Council's Delivery Plan, Council prepared and exhibited its Resourcing Strategy 2018-2022. (Attachment 4) The Resourcing Strategy incorporated the following elements:-</p> <ul style="list-style-type: none"> • Long Term Financial Plan • Workforce Management Plan • Asset Management Planning <p>The Long Term Financial Plan (LTFP) section of the Resourcing Strategy 2018-2022 outlines Council's Fit for the Future position and Improvement Plan strategies. The LTFP also shows the modelling of the different financial scenarios, Base Case and Improvement Plan, and how the given scenarios impact on Council's long term financial sustainability.</p> <p>In November, 2018 Council placed on public exhibition and subsequently adopted the following documents in December, 2018 that informed Council's Asset Management Plan:-</p> <ul style="list-style-type: none"> • Asset Management Policy; • Transport Infrastructure Asset

	Management Plan; <ul style="list-style-type: none"> • Buildings Asset Management Plan; • Parks & Recreation Asset Management Plan; and • Urban Stormwater Drainage and Flood Protection Asset Management Plan
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2.2 Key purpose of special variation

At the highest level, indicate the key purpose(s) of the proposed special variation by marking one or more of the boxes below with an “x”. The purpose should be directly related to the special variation being sought and should be further detailed in the sections below.

Maintain existing services	<input checked="" type="checkbox"/>
Enhance financial sustainability	<input checked="" type="checkbox"/>
Environmental services or works	<input type="checkbox"/>
Infrastructure maintenance / renewal	<input checked="" type="checkbox"/>
Reduce infrastructure backlogs	<input checked="" type="checkbox"/>
New infrastructure investment	<input type="checkbox"/>
Other (specify)	<input type="checkbox"/>

You should summarise below the key aspects of the council’s application, including the purpose and the steps undertaken in reaching a decision to make an application.

2.2.1. PURPOSE OF THE PROPOSED SRV

The key purpose of the special rate variation proposal is to address Dungog Shire Council’s financial sustainability and maintain/renew essential community infrastructure including Council’s road network, timber bridges and community buildings.

2.2.2. BACKGROUND

Dungog Shire Council has budgeted approximately \$19.8 million (including a one off \$8M Special Grant) this financial year for the maintenance and renewal of local assets and infrastructure; however, Council should be investing an additional \$6.1 million per year to keep assets safe and functioning. Council identified that despite its best efforts, the current rates revenue and funding available (\$15.6M excluding capital) is not enough to keep community assets in an acceptable, functional and safe condition.

Dungog Shire Council has a very low rate base to anchor the various services required of a modern council. Lack of finance is a major issue. As a consequence, Dungog Shire Council is significantly struggling with asset management, compliance and legislative obligations.

Council generates 40.5 percent of its own source revenue (through rates, building and development fees, etc.), which is amongst the smallest proportions of all NSW councils.

Further, 23 percent of the Shire is deemed non-rateable (National Parks, State Forests and other State owned corporations). Financial modelling undertaken by Dungog Shire Council estimates that this represents a loss of somewhere between \$397,000 to \$544,000 which equates to approximately 7.5% to 10% of Council's current rates base in foregone revenue. For a small rural council already experiencing considerable financial challenges, this is a substantial amount of money to forego particularly when Council is currently struggling to maintain and renew key community infrastructure.

The above figures are exacerbated by a large road network and no State-classified roads (Dungog Shire Council is the only Local Government Area in NSW that does not have a State Road). Council relies heavily on the Regional Road Network and the Block Grant Arrangements with the NSW Roads and Maritime Services (RMS) to assist with the funding of such.

Currently 51% of Dungog Shire Council's expenditure is directed toward maintaining roads, footpaths and bridges.

2.2.3. GRANT ALLOCATIONS – DUNGOG SHIRE COUNCIL

Council is often disadvantaged in road grant applications compared to neighbouring councils with higher traffic volumes and population (see Table 1 – Block Grants Allocation Comparisons by Council). Heavy vehicle transport accounts for 14 percent of traffic movements in the Shire, which increases the maintenance burdens exponentially. Research, including that by the Australian Road Research Board, has indicated that a laden truck does the equivalent damage of 10,000 cars – Council is of the view that the impact of one laden truck should be treated as the equivalent count for 10,000 cars in relation to the funding formula taken into account in the Block Grant Allocation formula utilised by the NSW Government.

TABLE 1: BLOCK GRANTS ALLOCATION COMPARISONS BY COUNCIL (2016/17)

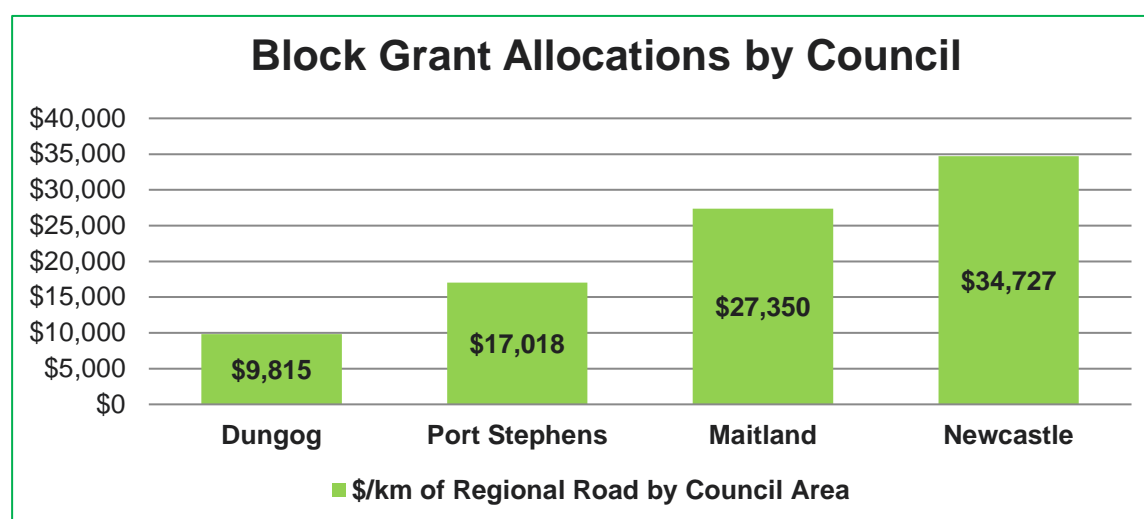
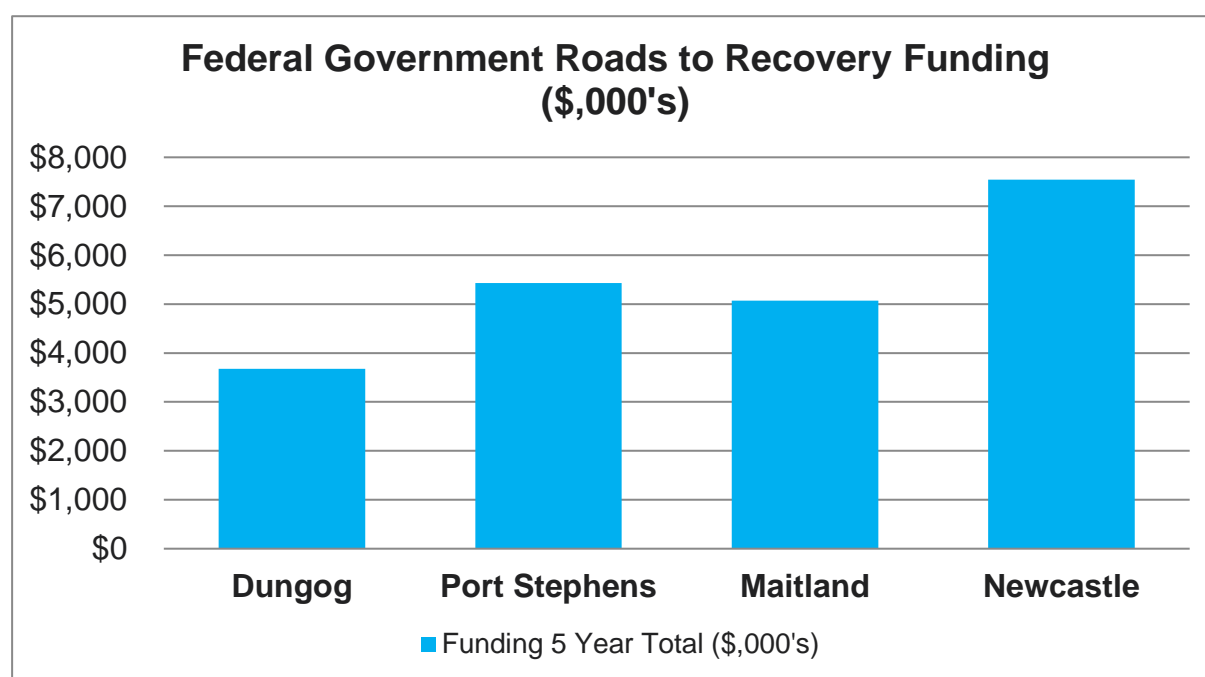


Table 1 also illustrates that our two neighbouring Council's to the south receive almost double (Port Stephens Council) and triple (Maitland City Council) the funding per kilometre of Regional Road that Dungog receives. It should be noted that the Roads & Traffic Authority (now Roads & Maritime Services) did get a consultant to review the Block Grant Allocation formula in 1998/1999 but determined at that time to not act on the findings of that report. Council continues to advocate for a change to this formula.

Similarly, as can be seen in Table 2 below, the comparison with Dungog Shire and neighbouring Council's Federal Government Roads to Recovery funding allocation clearly shows a significant difference in monies granted. Both Maitland and Port Stephens Councils receive in excess of \$1M more than Dungog.

TABLE 2: FEDERAL GOVERNMENT ROADS TO RECOVERY FUNDING COMPARISONS BY COUNCIL (2014/15 to 2018/19)



2.2.4. IMPACT OF NSW STATE GOVERNMENT COST SHIFTING

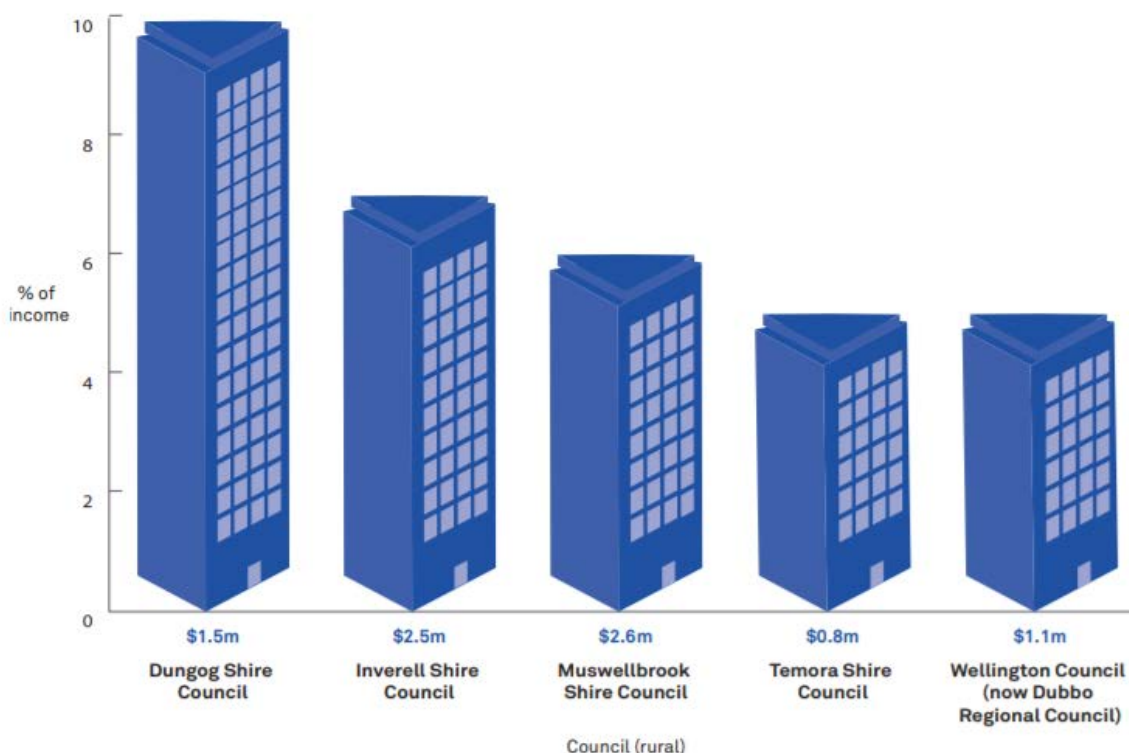
Cost shifting by the NSW State Government has also been undermining the financial sustainability of Dungog Shire Council. The LGNSW survey (2018) identified Dungog as the most affected rural Council in NSW by state government cost shifting.

This is predominantly driven by the transfer of responsibilities for roads under the State Government road reclassification reviews that occurred in the 1990's and the resultant net costs that were inherited by Councils. In Dungog Shire, these reviews resulted in the declassification of all Main Roads to Regional or Local Roads (including 21km of Main Roads to Local Roads). Dungog Shire Council now has no State Roads and the management responsibility for 124km of Regional Roads including the ongoing renewal/maintenance costs and depreciation costs.

Only minimal compensation was received by Council in association with a reclassification. This issue has been raised by the Mayor on Council's behalf in correspondence to the Premier, Deputy Premier and relevant Ministers. The graph below shows the five rural councils most affected by cost shifting, showing percentage of total income (before capital amounts) spent on cost shifting expenses, and dollar impact on each council 2015/16 (reference: Local Government NSW: Impact of Cost Shifting on Local Government in NSW 2018).

GRAPH 1: TOP 5 NSW RURAL COUNCILS MOST AFFECTED BY COST SHIFTING

The five rural councils most affected by cost shifting

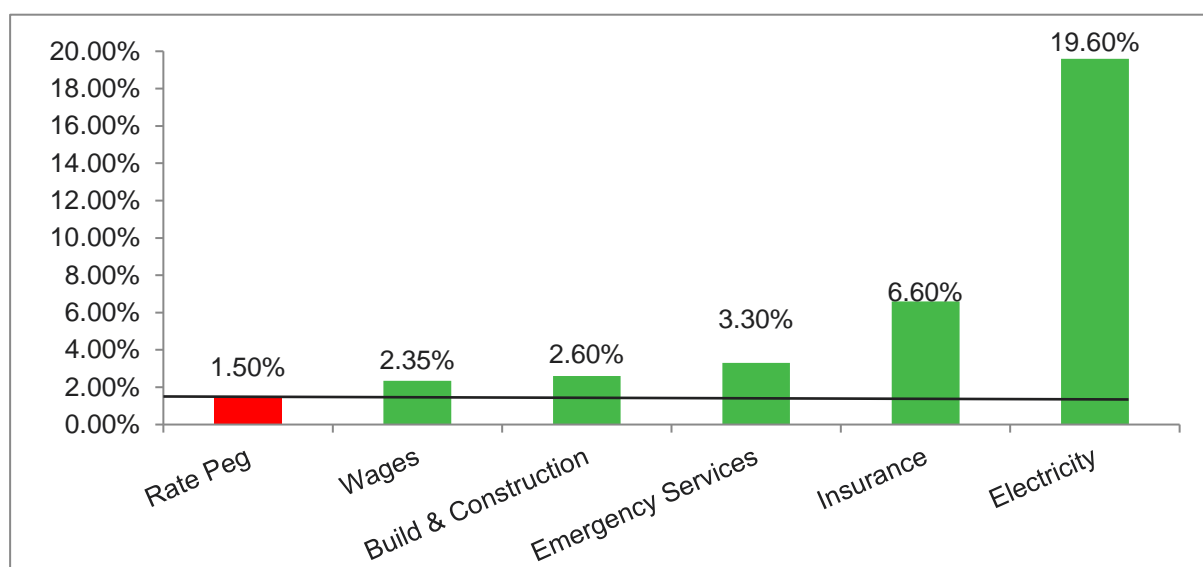


2.2.5. RATE PEGGING – DUNGOG SHIRE COUNCIL COSTS VS CPI

In 2017-2018 Council's general rates income represents 36% of its annual operating income (excluding capital grants). Council relies on the annual rate pegging increase set by IPART to fund the real cost increases it incurs for funding community infrastructure and services.

However, Dungog Shire Council is acutely aware that rate pegging as prescribed by the NSW State Government, is not increasing at the same rate as CPI, wages and other direct costs. Table 3 below, illustrates the rate peg in relation to actual cost increases experienced by Council (this table includes 2017/2018 figures).

TABLE 3: RATE PEG VS ACTUAL COSTS INCURRED BY COUNCIL



2.2.6. INFRASTRUCTURE BACKLOG – DUNGOG SHIRE COUNCIL

As at July 2018 Dungog Shire Council had 32 timber bridges, many of which are weight limited and varying in age from 40 to over 100 years. Council has received 50% grant funding from the NSW Government for 2 timber bridge replacements which were opened in January, 2019, reducing Council's total timber bridge number to 30. Maintenance and repairs on bridges is costing approximately 6% of general rate revenue per annum. Council has been unable to fund a systematic structured process to manage the whole of life costs associated with this essential asset class. As a result the weight limitations are now impacting on local agricultural enterprises which are Council's main source of economic activity. Costs for the Shire's local agricultural businesses, particularly during these recent drought conditions, have increased significantly due to the bridge weight limitations requiring them to get smaller loads more often, or having to take detours of up to 60 to 70 kilometres. Likewise, tourism, the Shire's third biggest industry with clear growth potential, is also suffering as a result of the conditions of the bridges and roads. During peak holiday periods, Council regularly receives correspondence from tourists who are extremely dissatisfied with the state of Council's roads and who advise Council that due to this they will never return to the region nor will they recommend the region to others. A sample letter is provided at Attachment 5. Further, the condition and limitation of Council's bridges also have a social and safety impact on the local community. By way of example, Council has been made aware by the local Rural Fire Services that a number of their fire vehicles are unable to take

direct routes to locations in the Shire for the purposes of fire fighting due to weight limitations on the bridges. Council's Mayor has been provided with an example by Mr Nick Helyer (Fire Captain Bendolba Salisbury) that the bridge at Glen William is no longer passable by a fire truck capable of fighting a house fire. This raises grave concerns in relation to community safety. Council is also aware of school buses needing to take extended routes to avoid certain bridges in their travels which results in school aged children being on public transport for periods of time that are longer than necessary.

Below are a series of representative photos of Dungog Shire Council's timber bridges and road conditions.



2.2.7. NSW STATE GOVERNMENT REFORM – IMPACT FOR DUNGOG SHIRE COUNCIL

In October, 2014 the Minister for Local Government required NSW Councils to provide improvement proposals to demonstrate how they were, or would become, 'Fit for the Future' Dungog Shire Council submitted a proposal opting to retain its existing structure and prepared a plan to undertake a program of improvements. Council was keenly aware that its operating result, excluding capital grants and contributions, has shown a deficit position in three of the past four years, that financial planning forecasted continuing operating deficits, that it was reliant on external funding sources and that conservative levels of borrowings had been maintained. Thus the Improvement Plan had two central elements that focus on providing significant increases to Council's funding sources:-

- 1) Borrowing funds for major infrastructure projects, supplementing government grants, in particular for replacement of timber bridges; and
- 2) Making application for a significant Special Rate Variation to address ongoing operational budget deficits.

The proposal and related Improvement Plan was examined by the NSW Independent Pricing and Regulatory Tribunal (IPART) which determined that Council did not meet the government's 'Fit for the Future' criteria and Council received a negative outlook in the TCorp assessment. Following the IPART assessment, in December, 2015 the NSW Premier announced 35 council merger proposals, including the merger of Dungog Shire Council. Dungog Shire Council was subsequently considered as part of 3 additional local government merger proposals. The final determination of the proposals by the Minister for Local Government was not completed until 2017 and the Premier accepted that Dungog Shire Council should remain in place, continuing to service the community.

Council was effectively delayed in implementing the long term strategic decisions about future funding options that it had identified as being necessary to improve Council's financial sustainability. Special Rate Variations were not able to be considered while merger proposals were being formally investigated (2014-2017), and Council was also prevented from borrowing funds from NSW Treasury.

Post resolution of the merger proposals, Council has evaluated its position and options, developed a plan for future prosperity and engaged with its ratepayers (business and community) with a key component part of the strategy being an application for a Special Rate Variation.

Council has for a number of years been constrained in its efforts to improve its financial sustainability and asset management. Council's journey has been somewhat challenging commencing with an unfit assessment under the 'Fit for the Future' program, and the three (3) local government merger proposal that placed Council in limbo between 2014 and 2017.

The table below shows Dungog Shire Council's starting point, utilising 2016/2017 performance results. Unfortunately, Council currently only meets one of the seven criteria.

TABLE 4: FIT FOR THE FUTURE CRITERIA – DUNGOG PERFORMANCE

Ratio	Calculation	What is Being Measured?	Sustainable Target	2016/17 Actual Ratio
Operating Performance	Total operating revenue (excluding capital grants and contributions) less total operating expenditure Divided by continuing operating revenue (excluding capital grants and contributions)	Does the Council have a balanced budget?	Greater than zero	-17.51% 
Own Source Operating Revenue	Total continuing operating revenue (excluding all grants and contributions) Divided by continuing operating revenue	Indicates the level of Council's self-sufficiency.	>60%	40.49% 
Asset Renewal Ratio (Buildings and Infrastructure)	Asset renewal expenditure divided by depreciation	Is asset renewal expenditure sufficient to maintain assets in the long-term?	Greater than 100%	92.37% 
Infrastructure Backlog Ratio	Estimated cost to bring assets to a satisfactory condition Divided by total value of infrastructure, building and other structures	Is the asset backlog manageable?	Less than 2%	4.78% 
Asset Maintenance Ratio	Actual asset maintenance divided by required asset maintenance	Are the assets being adequately maintained?	Greater than or equal to 100%	72% 
Debt Service Ratio	Loan repayments (interest and principal) divided by operating revenue (excluding capital grants and contributions)	Indicates whether Council has excessive debt servicing costs relative to operating revenue	> than 0% and < or equal to 20%	1.33% 
Real Operating expenditure per capita	Operating expenditure divided by population	Operating efficiency of the Council	Declining trend over time	\$2,197 per capita 

It is also noted with regard to the above, that as a result of not being deemed Fit for the Future, Dungog Shire Council is not able to take advantage of more agreeable borrowing rates and conditions with NSW Treasury, and instead is locked into less favourable loans with banks.

With the formal examination of the merger proposals completed, Council has resolved to be a "stand-alone" local government entity and the new Dungog Shire Council has been elected. Council has commenced the implementation of a raft of initiatives which it identified as being critical to its financial sustainability.

The Office of Local Government (OLG) continues to monitor Dungog Shire Council's performance against 'Fit for the Future' benchmarks and invited Council to submit its updated Reassessment Proposal outlining the actions it will take to improve its financial sustainability, infrastructure and service management and efficiency. Council's Reassessment Proposal was submitted to OLG on 1 August 2018. (See Attachment 6)

Council determined to use the State Government "Fit for the Future" performance criteria and benchmark performance indicators to assess the long term financial health of the organisation and its capacity to fund the proposed Delivery Program. This led to the development of Council's Improvement Plan which was lodged with the NSW Office of Local Government in 2018. This document demonstrates how Council proposes to address its future financial sustainability. Council's inability to reach own source revenue targets and operating surplus ratios clearly highlights the need to increase general rates as part of the solution. Working towards achieving the benchmarks is now Council's priority to secure its financial sustainability for the future of the community.

Strategies which form part of Council's Improvement Plan have been provided to OLG and include the following:

- i) Energy efficiency initiatives including solar and other renewable energy reviews;
- ii) Extending the life of the landfill by increasing recycling and diversion rates;
- iii) Increase loan borrowings to leverage additional capital grants to address Council's infrastructure backlog – in particular for the timber bridge replacement program;
- iv) Review of developer contribution plans to ensure that funding is put aside for the increased demands in public amenities and public services that are associated with future development;
- v) Preparing a Rural Lands Strategy to inform better decisions on highest and best land use for agriculture purposes and to assist with planning for the more marginal land for other uses;
- vi) Review of fees and charges to identify any additional revenue streams to increase Council's revenue base;
- vii) Continue the implementation and refinement of Council's asset management plans to better define asset conditions, service levels, useful lives and required annual maintenance, taking into account community expectations;
- viii) Continue to explore strategic alliance and shared service opportunities with neighbouring Councils and the Hunter Joint Organisation of Councils;
- ix) Implementation of a program of service reviews to improve efficiency and potential for transition of non-core services to external service providers;
- x) Sale of Council owned assets that are surplus to need;

- xi) Lobbying and representations to Government regarding inequities in road funding, reclassification of Dungog Shire Council's road network and the impost of unrateable land; and;
- xii) Investigation and modelling for a Special Rate Variation to address Council's budget deficit and infrastructure backlog with the view to pursue a special rate variation for the 2019/2020 financial year.

The systematic and concurrent implementation of the above will address the ongoing financial sustainability for Dungog Shire Council.

Council has adopted a Resourcing Strategy 2018 – 2022 which includes *inter alia* a Long-Term Financial Plan (See Attachment 7) that models the implementation of critical financial initiatives designed to correct the financial position of Council, in particular:

- Increase revenue with a proposed tapered Special Rates Variation (SRV) commencing in 2019/20 at 15% for 2 years, then 10% for 3 years, followed by 6% for two years (a cumulative SRV of 97.8% over 7 years which includes the cumulative increase of 18.9% from the rate peg increase).
- Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- Increase the roads maintenance budget to reduce the gap between required annual maintenance and funded annual maintenance by 25%. The additional annual maintenance budget is \$450,000 per annum, increasing annually.
- Additional annual budget for community infrastructure renewal, with a focus on roads and bridges. On average an additional \$4.8 million per annum.
- Adequate resources, services and regulatory responsibilities that affect the wellbeing and safety of the community

2.2.8. DUNGOG SHIRE COUNCIL RESOLUTIONS

In October, 2017 Council resolved to investigate a Special Rate Variation to address Council's infrastructure backlog with the view to pursue a Special Rate Variation for the 2018/2019 financial year (Attachment 8a: Minute No. 37550).

In November, 2017 Council resolved the following:

1. *Council continue to investigate a special rate variation to address council's budget deficit and infrastructure backlog with the view to pursue a special rate variation for the 2019/2020 financial year;*
2. *Council conduct extensive and varied community engagement to determine the communities service level requirements and corresponding special variation increase;*
3. *Any proposed special rate variation is incorporated into Council's relevant IP&R documents for approval, exhibition and adoption prior to an application to IPART (Attachment 8b: Minute No. 37584)*

The key purpose of the special rate variation proposal is to address Dungog Shire Council's financial sustainability and maintain essential community infrastructure including Council's road network, timber bridges and community buildings. As identified in Special Schedule 7 of Council's Financial Reports (Attachment 9), the estimated cost to bring Council's Assets to a satisfactory standard (ie Council's infrastructure backlog) has increased from **\$18,344,000** in 2016/2017 to **\$22,780,000** in 2017/2018 (which represents 6.47% of its written down infrastructure asset value - the prescribed industry benchmark is less than 2%).

This ongoing failure to address the funding gap has resulted in a worsening of the infrastructure backlog by **\$4,436,000 or 24%** in the past year alone. This only exacerbates Council's already poor result in the ability to sustain our assets and falls well short of the target benchmarks set by the NSW State Government.

Of the above \$22,780,000 of backlog works, the largest area of concern is the **roads and bridge networks which account for \$14,295,000 or 63% of these required works.** In addition to this, Dungog Shire Council like a lot of rural councils also has the added burden of national increases to heavy vehicle loadings administered through the National Heavy Vehicle Regulator (NHVR) placing added loadings on already poor and ageing infrastructure. In particular, the new standards of General Mass Limits in excess of 50 tonnes for standard 7 axle B-Doubles places added pressure on ageing timber bridges originally only designed for masses as low as 14 tonnes. As a result of such and Council's need to meet the requirements of our peak industry (Agriculture, Forestry and Fishing), a Timber Bridge Replacement Program of \$16.1M has been developed as shown in the table below:-

TABLE 5: TIMBER BRIDGE REPLACEMENT PROGRAM

DUNGOG SHIRE COUNCIL TIMBER BRIDGE REPLACEMENT PROGRAM							
BRIDGE DETAILS						Proposed Long Term Structure	
Bridge ID	Bridge Name	Length (m)	Width (m)	Area (m²)	Current Load Limit (t)	Type	Cost
B0033005	Tillegra Bridge	56.8	4.6	261.3	40	Concrete Bridge	\$ 1,747,200
B0036515	Summerhill Rd - 3rd Bge	16	3.7	59.2	10	Concrete Bridge	\$ 491,400
B0017505	Mary Carlton's Bridge	19.2	6.1	117.1	16	Concrete Bridge	\$ 600,600
B0000540	Archinals Bridge	32.5	3.1	100.8		Concrete Bridge	\$ 982,800
B0026505	Hopson's Bridge	38.4	3.9	149.8		Concrete Bridge	\$ 1,146,600
B0026530	Ashards Bridge	12.5	4.2	52.5		Modular Concrete Bridge	\$ 259,200
B0007520	Dusodie Bridge	47	4.4	206.8		Concrete Bridge	\$ 1,528,800
B0015805	Suspension Bridge	72.7	3	218.1	3	Concrete Bridge	\$ 2,074,800
B0028005	Ryans Bridge	12.8	3.6	46.1	5	Modular Concrete Bridge	\$ 302,400
B0036505	Bruxner Bridge	29.9	5	149.5	40	Concrete Bridge	\$ 819,000
B0036510	Jordans Bridge	8.5	3.6	30.6	40	Modular Concrete Bridge	\$ 259,200
B0024510	Gam's Bridge	11	4.5	49.5		Concrete Deck on Existing Abutments	\$ 123,750
B0024515	Mate's Bridge	10.6	6.5	68.9		Concrete Deck on Existing Abutments	\$ 119,250
B0006010	Packhams Bridge	5.6	4.7	26.3		Modular Concrete Bridge	\$ 194,400
B0008510	Saxby's Bridge	15.8	3.2	50.6		Modular Concrete Bridge	\$ 388,800
B0031005	Banfield Bridge	46.4	3.4	157.8	10	Concrete Bridge	\$ 1,310,400
B0014010	Fosterton Bridge	34.5	5.7	196.7	12	Concrete Bridge	\$ 982,800
B0000105	Thalaba Bridge	34.4	5.5	189.2	5	Concrete Bridge	\$ 1,118,000
B0028010	Middlebrooks Bridge	9.5	3.2	30.4		Modular Concrete Bridge	\$ 259,200
B0028605	Osmond's Bridge	9.2	3.1	28.5		Modular Concrete Bridge	\$ 172,800
B0032805	Weldon Rumbels Bge	9.2	3.5	32.2		Concrete Deck on Existing Abutments	\$ 80,500
B0028505	Hick's Bridge	12.2	3.5	42.7		Modular Concrete Bridge	\$ 302,400
B0011005	Dowlings Bridge	27.5	3	82.5		Concrete Deck on Existing Abutments	\$ 206,250
B0025005	Reeves Bridge	9	3	27.0		Modular Concrete Bridge	\$ 129,600
B0006505	Chesworth's Bridge	9	3.6	32.4	20	Modular Concrete Bridge	\$ 259,200
B0021105	Kingfisher Ck Bge	16.5	3.4	56.1	20	Modular Concrete Bridge	\$ 230,400
		606.7		2462.4			\$16,089,750

2.2.9. COMMUNITY FEEDBACK

The results of community feedback strengthened Council's resolve in terms of reaching a decision to make an application for a Special Rate Variation.

Dungog Shire residents have consistently told Council that assets such as roads, bridges, public spaces, parks and community facilities are important to them and that Council needs to improve their condition. In addition to this, the State Government introduced its Fit for the Future Reform in 2014, which required all NSW councils to assess their current position and submit a proposal demonstrating how they will become Fit for the Future.

By way of community engagement, Council established a voluntary community reference panel, and facilitated fifteen (15) community meetings and workshop discussions about the reality of Council's unsustainable financial position and the need to reduce infrastructure backlogs and increase investment in asset maintenance and renewal through a raft of strategies including a possible Special Rate Variation. Further details are provided at Assessment Criteria 2.

To better appreciate the community's understanding, attitude and awareness of the proposed SRV, Council also contracted independent research company Micromex to conduct a statistically valid randomised telephone survey. 60% of respondents were aware that Council was considering an SRV, 53% of respondents were supportive of the proposed Improvement Plan and 48% of residents identified road and bridge maintenance as the highest priority for Council. (See Attachment 10a: for survey and results)

The Micromex randomised telephone survey followed on from Council's Special Rate Variation survey which was mailed to all rate payers in the July 2018 rate notices. Council distributed 4895 rate notices and received 507 completed surveys from residents, a return rate of 10.36%. Of the 507 respondents, 35 (7%) were still undecided, 245 (48%) were in support of the proposed Special Rate Variation and 227 (45%) were not in support of the proposed Special Rate Variation. (See Attachment 10b: for survey and results) Further details of this survey are included at Assessment Criterion 2. The survey results give a good overview of community views on the matter, however, due to the potential for self-selection bias, it is not possible to attribute the same confidence to it as the Micromex telephone survey.

2.2.10. CONCLUSION

Without the proposed SRV, a key component of our Improvement Plan, Council's financial position will remain unsustainable and there will be no capacity to fund the renewal of key infrastructure assets. The potential flow-on effect is the further deterioration of these assets, and the increase in safety issues for road users and their immediate community. At risk, and of particular concern, is the renewal program for timber bridges and roads that will not proceed.

The tapered SRV approach over the 7 year period, with the first two years being 15% was considered for two reasons, firstly as a method to enhance cash flow into Council thus allowing the opportunity to fund key areas of concern as soon as practicable (ie: within the first four years). This also serves the purpose of decreasing Council's maintenance costs as shown by the positive impact in the Infrastructure Backlog Ratio and the Asset Renewal

Ratio from years 2022-2023. And also because the community told us they were prepared to pay more in rates but wanted to see results. The figures, as calculated by Morrison Low, which pertain to the expected amount raised each year by Council's proposed SRV, excluding the pegging of 2.5%, are as follows:-

Year 2019-20 \$720,000

Year 2020-21 \$844,000

Year 2021-22 \$585,000

Year 2022-23 \$646,000

Year 2023-24 \$713,000

Year 2024-25 \$367,000

Year 2025-26 \$391,000

2.3 Existing s508A multi-year special variation

You should complete this section if the council has an existing s508A multi-year special variation instrument that will continue to apply in the period for which the council is seeking further changes to its general income.

If IPART decides to approve an increase to the council's general income in response to this application, it will vary the existing s508A multi-year special variation instrument. Therefore, by completing this application form and seeking a further change to your revenue path, you are in effect applying for a variation to that instrument.

When addressing the assessment criteria in the remainder of this application form, please take care to be clear about whether the information you are providing is in relation to the incremental increase being sought by the council or the total cumulative increase that may be reflected in a varied instrument (this would include the aspects of the application that have previously been approved by IPART).

Does the council have a s508A multi-year special variation instrument that will continue to apply in the period for which the council is seeking further increases to its general income Yes ☐ No ☒

If Yes:

- Over what period does the existing instrument apply? From _____ to _____
- What are the approved percentages for each year of the existing instrument? _____
- Briefly describe any significant changes of relevance since you submitted the application for the existing instrument.

NOT APPLICABLE

2.4 Capital expenditure review

You should complete this section if the council intends to undertake major capital projects that are required to comply with the OLG's Capital Expenditure Guidelines, as outlined in OLG Circular 10-34. A capital expenditure review is required 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.

A capital expenditure review is a necessary part of a council's capital budgeting process and should have been undertaken as part of the Integrated Planning and Reporting requirements in the preparation of the Community Strategic Plan and Resourcing Strategy.

Does the proposed special variation require council to do a capital expenditure review in accordance with OLG Circular to Councils, Circular No 10-34 dated 20 December 2010	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If Yes, has a review been done and submitted to OLG?	Yes <input type="checkbox"/>	No <input type="checkbox"/>

3 Assessment Criterion 1: Need for the variation

Criterion 1 in the OLG Guidelines is:

The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:

- *Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and*
- *Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.*

The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need /desire for service levels/projects and limited council resourcing alternatives.

Evidence could also include the analysis of the council's financial sustainability conducted by Government agencies.

The response to this criterion should summarise the council's case for the proposed special variation. It is necessary to show how the council has identified and considered its community's needs, as well as alternative funding options (to a rates rise).

The criterion states that the need for the proposed special variation must be identified and clearly articulated in the council's IP&R documents especially the Long Term Financial Plan and the Delivery Program, and, where appropriate, the Asset Management Plan. The purpose of the proposed special variation should also be consistent with the priorities of the Community Strategic Plan.

3.1 Case for special variation – community need

In its application, the council should summarise and explain:

- ▼ How it identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision.
- ▼ How the decision to seek higher revenues above the rate peg was made and which other options were examined, such as changing expenditure priorities or using alternative modes of service delivery.
- ▼ Why the proposed special variation is the most appropriate option: for example, typically other options would include introducing new or higher user charges and/or an increase in loan borrowings, or private public partnerships or joint ventures.

- ▼ How the proposed special variation impacts the Long Term Financial Plan forecasts for the General Fund and how this relates to the need the council identified. Our assessment will also consider the assumptions which underpin the council's Long Term Financial Plan forecasts.

In addressing this criterion, you should include extracts from, or references to, the IP&R document(s) that demonstrate how the council meets this criterion.

3.1.1. BACKGROUND

Dungog Shire's infrastructure is extensive. Council maintains roads, drainage, waste infrastructure as well as parks, ovals, sporting grounds and community halls. Within the Dungog Shire area there are 329 kilometres of sealed roads, 271 kilometres of unsealed roads and 124 kilometres of regional roads, all of which are maintained by Council.

3.1.2. COMMUNITY NEEDS AND DESIRES

The Community Strategic Plan 2030 (Extract - Attachment 1) has as one of its goals: *"Our community is supported by safe, functional, accessible and well maintained infrastructure and effective local and regional transport networks."* (CSP page 20).

Dungog Shire residents have consistently told Council that assets such as roads, bridges, public spaces, parks and community facilities are important to them, and that Council needs to improve their condition. In the development of the Community Strategic Plan 2030 (the first iteration of this document was 2012) which involved considerable community engagement, the community identified the following as priorities for our future:-

- *Our road and bridge network is safe, well maintained and able to provide appropriate vehicular access across the Shire* (CSP page 21 – Attachment 1);
- *Public facilities across the Shire need to be provided and maintained to an appropriate standard* (CSP page 21 – Attachment 1);
- *Ensure our local bridge network is safe and able to accommodate heavy vehicle load requirements* (CSP page 21 – Attachment 1);
- *Ensure that community assets, facilities and public infrastructure are planned for, maintained and improved to a reasonable standard* (CSP page 21 – Attachment 1); and
- *Ensure our local parks, sporting and recreation facilities are safe and well maintained* (CSP page 18 – Attachment 1).

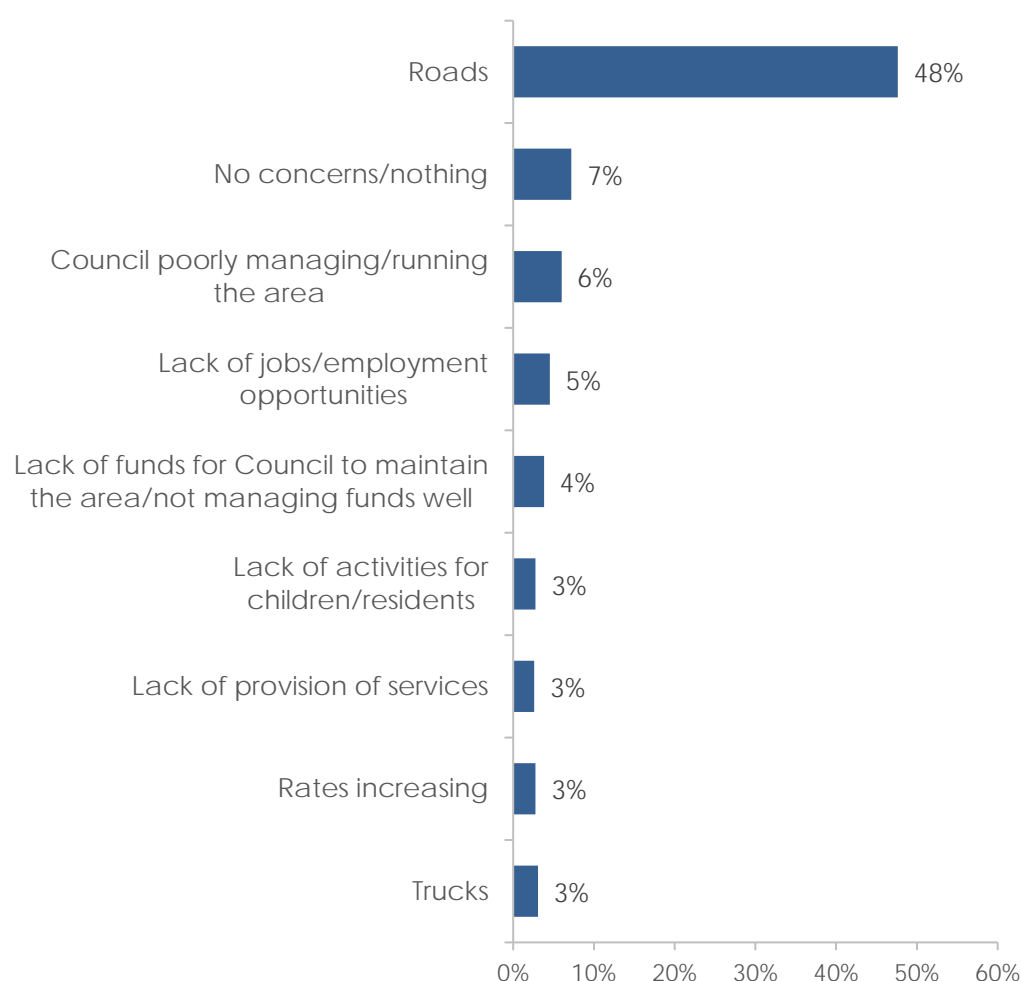
In addressing the above priorities, the Community Strategic Plan 2030 clearly states that a *"..successful application for a Special Rate Variation"* would be an indicator of success (CSP pages 19, 21 – Attachment 1). The Community Strategic Plan 2030 on page 23 is explicit in stating that an indicator of success is a : *"Successful application for a Special Rate Variation to strengthen Dungog Shire Council's financial position to enable Council to deliver the services and infrastructure that our community needs both now and into the future"*.

The Community Strategic Plan 2030, including the above referenced extracts, was placed on public exhibition by Council in May 2018 and adopted in June 2018. Notification of the

exhibition of these documents was distributed to the 130 community and sporting groups on Council's Community Groups register. The documents were placed on public exhibition at Dungog Shire Library, Paterson Country Café, Vacy General Store, Gresford Post Office Store, and Clarence Town RTC. Advertisements were also placed in the Dungog Chronicle, the Paterson Psst, Gresford News and the Clarence Town Spotlight. The Mayor's column called for community feedback in relation to the draft documents on exhibition and Council's website was also utilised to promote awareness of the draft documents. One (1) submission was received from the Chairman of Dungog Regional Tourism was received in relation to the exhibited document.

In addition to the Community Strategic Plan 2030 Council has also received very clear feedback from the community about what concerns them most with regards to living in the Dungog Shire. Results from an independent telephone survey conducted by Micromex Research in 2018 informed Council that almost half of residents stated 'Roads (quality/maintenance)' are what concerns them most with regards to living in Dungog Shire. This community concern is significant and outweighs other identified concerns. This community feedback is captured in Bar Chart 1 below.

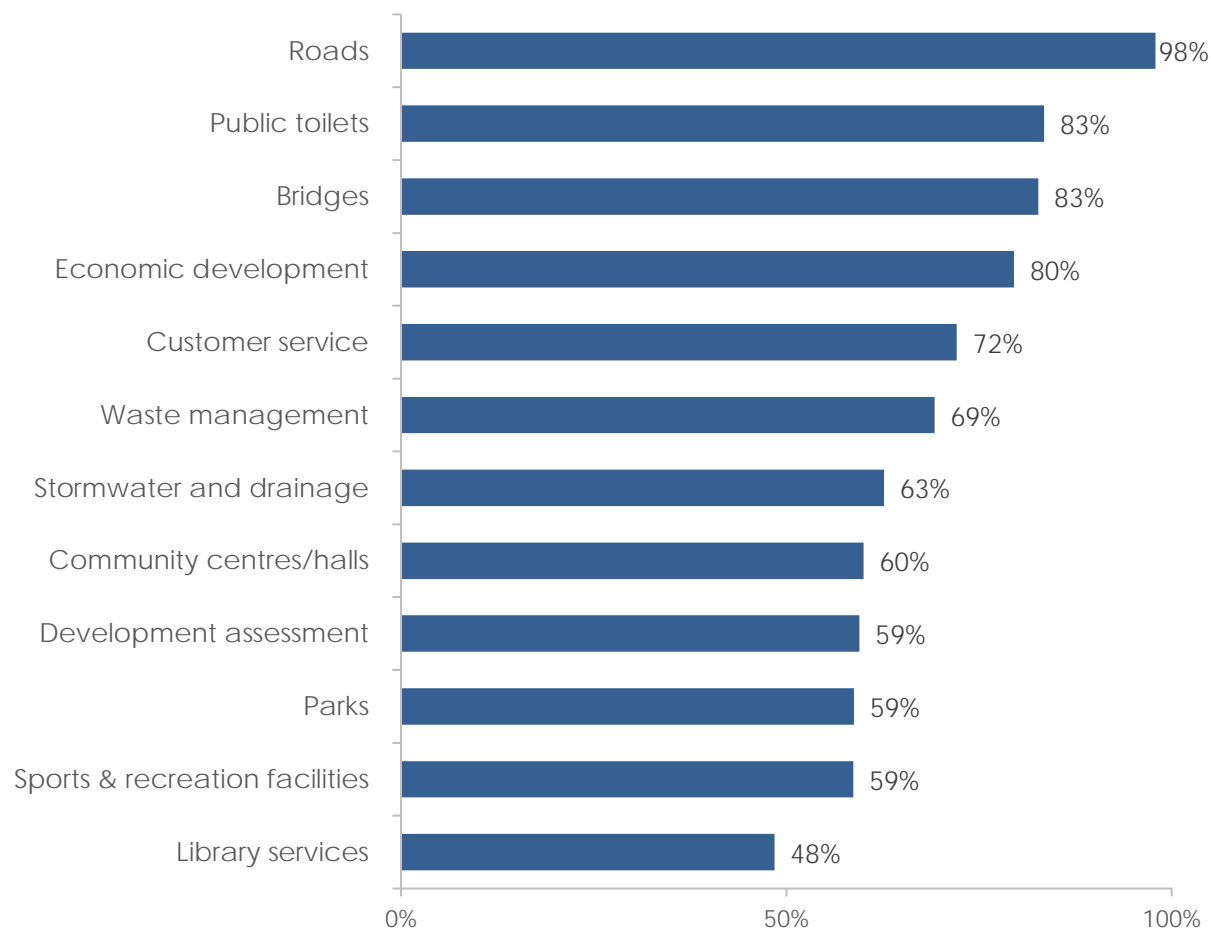
BAR CHART 1: RESIDENTS BIGGEST CONCERNS LIVING IN THE DUNGOG SHIRE



In the same survey, when asked what should be prioritised by Council 98% of respondents stated that 'roads' were a priority, with 80% or more stating 'public toilets', 'bridges' and

'economic development' were priorities. The top 12 community identified priority areas are outlined below in Bar Chart 2.

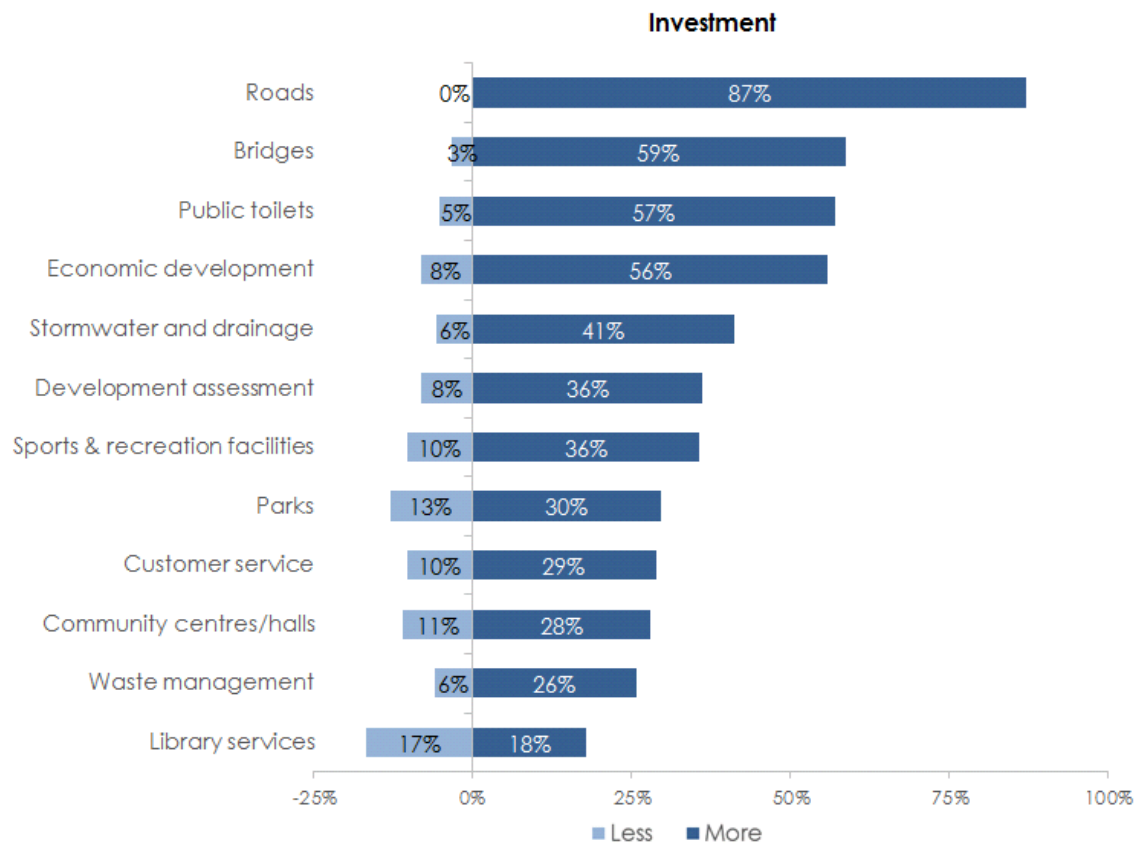
BAR CHART 2: RESIDENT IDENTIFIED PRIORITIES FOR COUNCIL



The telephone survey also revealed that significant segments of the community want increased resourcing across many business areas and that there is little appetite for service reductions. The response from residents is outlined below in Bar Chart 3.

In regard to the area of highest priority identified by residents (roads), the table below (Bar Chart 3) clearly illustrates that resident satisfaction with this service provided by Council is low and the desire for greater investment has been identified by 87% of respondents. Very few respondents have indicated that lesser investment is preferred by the community. A very similar picture emerges with regard to bridges - a summary regarding this priority area is also provided below.

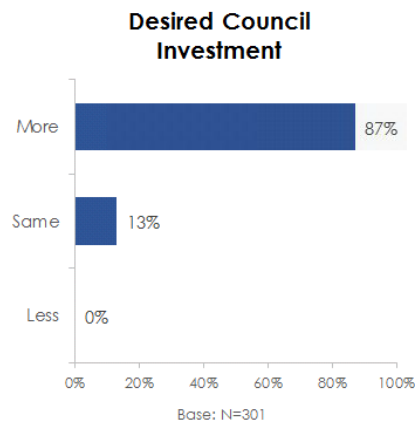
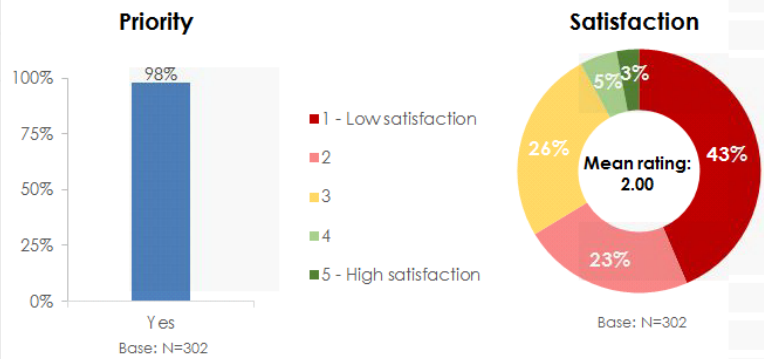
BAR CHART 3: RESIDENT SUMMARY OF INVESTMENT



Priority and Satisfaction with Services – Roads

	Rank	
	Priority	Satisfaction
1 st	●	●
2 nd	●	●
3 rd	●	●
4 th	●	●
5 th	●	●
6 th	●	●
7 th	●	●
8 th	●	●
9 th	●	●
10 th	●	●
11 th	●	●
12 th	●	●

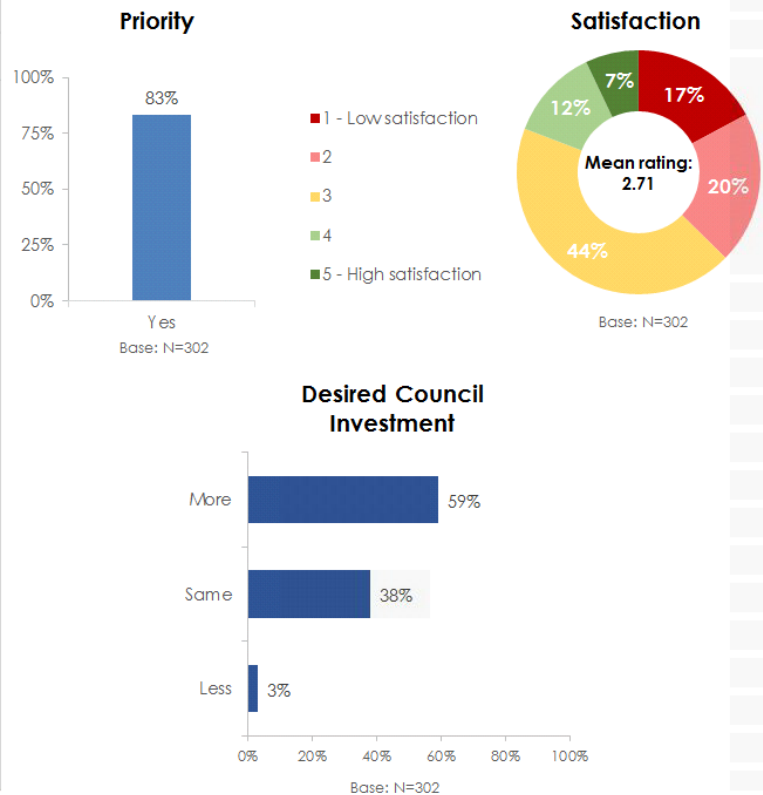
Note: satisfaction rank is based on mean rating



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Priority and Satisfaction with Services - Bridges

	Rank	
	Priority	Satisfaction
1 st	●	●
2 nd	●	●
3 rd	●	●
4 th	●	●
5 th	●	●
6 th	●	●
7 th	●	●
8 th	●	●
9 th	●	●
10 th	●	●
11 th	●	●
12 th	●	●

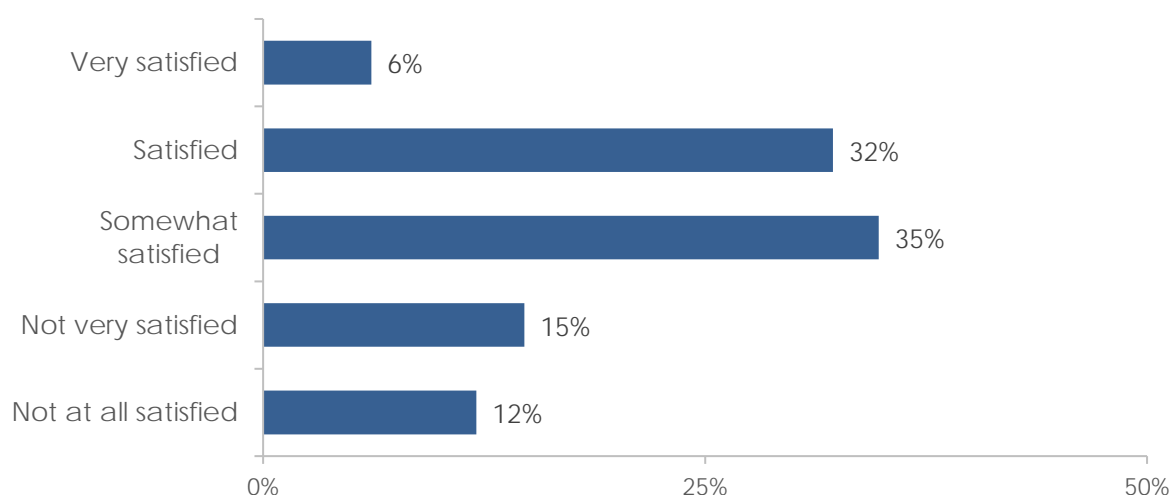


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These results provide Council with a high level of confidence that the key purpose of the proposed Special Rate Variation, to address Dungog Shire Council's financial sustainability and maintain essential community infrastructure including Council's road network, timber bridges and community buildings, is relevant and well supported by residents and businesses of the Dungog Shire.

However, Council is not currently in a position that allows for the prerequisite financial allocations into these asset classes to meet community expectations. This is illustrated in Bar Chart 4 below that shows 73% of residents are at least 'somewhat satisfied' with the performance of Council in the last 12 months. Dungog Council's overall satisfaction score was significantly lower than the 'All of NSW' and 'Regional' benchmarks. In this regard, Council received a mean rating of 3.06, compared against 3.42 for Councils across NSW and 3.31 for regional NSW Councils.

BAR CHART 4: RESIDENT ASSESSMENT OF COUNCIL PERFORMANCE



3.1.3. EXAMINING COUNCIL'S ASSETS

In Council's adopted **Asset Management** documents, which inform Council's **Resourcing Strategy 2018-2022**, Council has defined both the current community levels of services (ie: service outcomes that the community wants in terms of safety, quality, quantity, reliability, responsiveness, cost effectiveness and legislative compliance) and the technical levels of service (relating to the allocation of resources to service activities that the council undertakes to best achieve the desired community outcomes). The documents are very transparent in stating that *"There will be an ongoing challenge for Council to review levels of service and budget allocations in attempting to more closely match these with community expectations."* (Buildings Asset Management Plan page 6 – Attachment 11) (Full document available at: <https://www.dungog.nsw.gov.au/council/council-documents/asset-management-plans>). The community expectations were determined via various sources including residents' feedback to Councillors and staff, service requests and correspondence.

Council's **Buildings Asset Management Plan** adopted by Council in November, 2018 clearly states: *"It is likely that council will have to reduce service levels in some areas, unless new sources of revenue are found. For buildings, the service level reduction may include a reduction in maintenance and operating costs and an inability to renew existing buildings in line with renewal programmes. One option is to review the sustainability of*

buildings that are in poor condition and have poor levels of use to provide a higher overall service level with less buildings". (page vii – Attachment 12),(Full document available at: <https://www.dungog.nsw.gov.au/council/council-documents/asset-management-plans>)

Council's **Parks and Recreation Asset Management Plan** adopted by Council in November, 2018 states; *"It is likely that council will have to reduce service levels in some areas, unless new sources of revenue are found. For parks and recreation assets, the service level reduction may include a reduction in maintenance and operating costs and an inability to renew existing assets in line the current renewal program". (page v – Attachment 13) (Full document available at: <https://www.dungog.nsw.gov.au/council/council-documents/asset-management-plans>).*

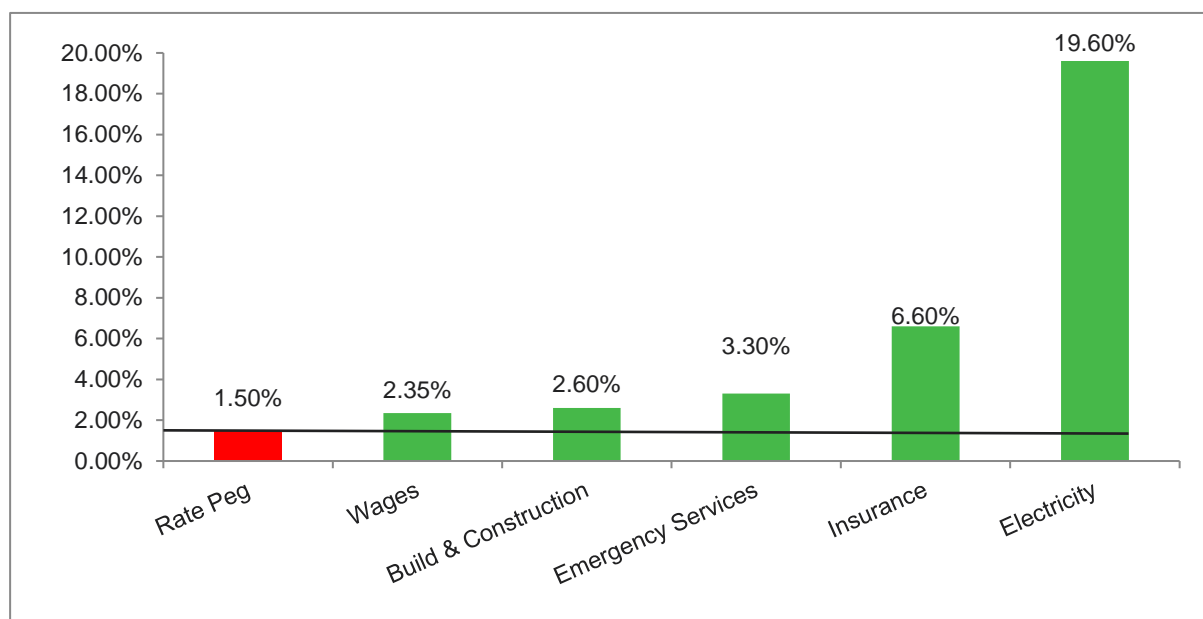
Similarly, Council's **Roads and Transport Asset Management Plan** identified that, given present funding limits, Council is not currently able to fund rehabilitation and renewal works at the required intervals and is highly dependent upon Special Grants to achieve necessary asset renewals. The document also highlights that significant increases in funding is required to retain the road and bridge network at its current condition and undertake renewals as they become required. If the funding shortfall is not addressed, this will lead to a reduced level of service and further deterioration of the sealed roads and bridge network across the Shire. (page v – Attachment 14) (Full document available at: <https://www.dungog.nsw.gov.au/council/council-documents/asset-management-plans>).

3.1.4. RATE PEGGING – DUNGOG SHIRE COUNCIL COSTS VS CPI

In 2017-2018 Council's general rates income represents 36% of its annual operating income (excluding capital grants). Council relies on the annual rate pegging increase set by IPART to fund the real cost increases it incurs for funding community infrastructure and services.

However, Dungog Shire Council is acutely aware that rate pegging as prescribed by the NSW State Government, is not increasing at the same rate as CPI, wages and other direct costs. The below table illustrates the rate peg in relation to actual cost increases experienced by Council (this table includes 2017/2018 figures).

Notwithstanding the now advised rate cap of 2.7% the compounding effect of 1.5% continues to impact on Council's budget.

TABLE 6: RATE PEG VS ACTUAL COSTS INCURRED BY COUNCIL**3.1.5. RATES AVERAGES**

Council's largest revenue sources are general rates income and government grants and contributions. Council has very limited scope to generate additional revenue sources through fees and charges. Its operations are focussed on traditional general fund council services. User fees and charges are raised where they can be tied to reasonable costs and where the community is willing to pay for service.

The OLG 2016-2017 Council Comparative Time Series Data shows that Dungog Shire Council currently has the lowest average rate of its neighbouring councils. Compared with all Group 10 councils, Dungog Shire's average rate of \$1,098 is less than 82% of the average and 46% of the highest council's average rate.

TABLE 7

Rating Category	Dungog	Port Stephens	Upper Hunter	Singleton	Maitland	Mid-coast
Residential	\$831	\$969	\$739	\$829	\$1,224	\$1,128
Business	\$880	\$4,047	\$898	\$6,713	\$6,552	\$2,794
Farmland	\$2,132	\$1,703	\$3,414	\$1,990	\$3,056	\$1,846
All assessments	\$1,098	\$1,145	\$1,331	\$1,568	\$1,585	\$1,922

Compared with Group 10 councils, Dungog has a higher residential rate than average; however it is less than half of the highest Council's average residential rate. See Table 8 below.

TABLE 8

Residential		Business		Farmland		Mining	
Councils	Avg Rate (\$)	Councils	Avg Rate (\$)	Councils	Avg Rate (\$)	Councils	Avg Rate (\$)
Bland	1,743	Wentworth	5,430	Gwydir	5,465	Blayney	2,194,542
Cobar	1,336	Forbes	2,775	Walgett	4,525	Bland	466,736
Kyogle	941	Narromine	1,880	Liverpool Plains	4,274	Narromine	135,504
Junee	880	Junee	1,608	Narromine	3,889	Liverpool Plains	74,242
Oberon	880	Warrumbungle	1,588	Narrandera	3,668	Lachlan	57,443
Dungog Shire	863	Glen Innes Severn	1,525	Uralla	3,473	Cobar	57,073
Forbes	779	Narrandera	1,442	Lachlan	3,279	Upper Lachlan	3,115
Glen Innes Severn	762	Temora	1,380	Warrumbungle	2,918	Tenterfield	921
Wentworth	740	Blayney	1,379	Glen Innes Severn	2,901	Berrigan	-
Narrandera	723	Berrigan	1,364	Blayney	2,703	Dungog Shire	-
Gwydir	689	Kyogle	1,317	Junee	2,545	Edward River	-
Berrigan	688	Tenterfield	1,139	Forbes	2,367	Forbes	-
Uralla	677	Bland	1,104	Dungog Shire	2,214	Glen Innes Severn	-
Liverpool Plains	663	Cobar	1,075	Berrigan	2,062	Gwydir	-
Blayney	652	Upper Lachlan	1,046	Temora	1,871	Junee	-
Narromine	619	Liverpool Plains	1,027	Upper Lachlan	1,792	Kyogle	-
Temora	559	Oberon	973	Bland	1,786	Narrandera	-
Warrumbungle	547	Dungog Shire	914	Oberon	1,767	Oberon	-
Tenterfield	524	Gwydir	900	Kyogle	1,694	Temora	-
Lachlan	516	Uralla	741	Cobar	1,643	Uralla	-
Upper Lachlan	501	Lachlan	710	Wentworth	1,575	Walgett	-
Walgett	345	Walgett	710	Tenterfield	1,167	Warrumbungle	-
Edward River	-	Edward River	-	Edward River	-	Wentworth	-

3.1.6. FINANCIAL ASSESSMENT, SUSTAINABILITY AND BENCHMARKING

In March 2013, TCorp delivered its Financial Assessment, Sustainability and Benchmarking Report for Dungog Shire Council that found it difficult to analyse Council's financial sustainability because Council had not been able to complete its Asset Management Planning, however, that it was *"probable that once Council's updated AMP and LTFP are completed following the Asset Revaluations process, Council will be identified as unsustainable....Reviewing the impact that the Asset Revaluations process has had on other similar sized councils, it is likely that Council will be unsustainable with depreciation expenses likely to increase after the Asset Revaluation and it will further impact the negative outlook of the LTFP. Council is unlikely to be able to fund future asset renewals and subsequently the Infrastructure Backlog will increase. The ongoing required maintenance costs may also increase putting further pressure on Council funds."* The TCorp Report is provided as Attachment 15.

In April 2013, TCorp published its findings for the NSW Local Government Sector, including its assessment of Dungog Shire Council as having a Financial Sustainability Rating (FSR) of weak with a negative outlook.

In June 2013, the Office of Local Government published the results of its Local Government Infrastructure Audit that provided an Infrastructure Management Assessment for Dungog Shire Council as being “*Distressed*”. Refer Attachment 16.

In June 2015, Council submitted its ‘Fit for the Future’ improvement proposal to IPART for assessment, within the proposal acknowledging that overcoming the infrastructure backlog was Council’s most significant challenge. Council considered all possible options for increasing revenues, including reviews of user fees and charges, developer contributions plans, borrowing, grant funding, and the special rate variation. All of these elements have been included in all subsequent plans and financial strategies, and the two central elements included in the Improvement Plan that can provide the most significant increases to Council’s funding sources are:

1. Borrowing funds for major infrastructure projects, supplementing government grants, in particular for replacement of timber bridges; and
2. Making application for a significant Special Rates Variation to address ongoing operational budget deficits.

Given Council has a negative operating result, Council must increase revenue sources in order to have capacity to fund the repayment and interest arising from new loans.

Following the IPART assessment, in December 2015 the NSW Premier announced 35 council merger proposals, including the merger of Dungog Shire Council. Dungog Shire Council was subsequently considered as part of three additional local government merger proposals. The final determination of the proposals by the Minister for Local Government was not completed until 2017 and the Premier accepted that Dungog Shire Council should remain in place, continuing to service the community.

It is noted that the resolution of merger proposals was cemented by a resolution of Port Stephens Council in February 2018 which was adopted as follows:-

- 1) *Advise Dungog Shire Council that Port Stephens Council has no interest in pursuing a voluntary merger proposal.*
- 2) *Authorise the General Manager to enter into negotiations with Dungog Shire Council about potential strategic alliance options.*

Dungog Shire Council was advised of the Port Stephens Council resolution via correspondence from the Mayor, Cr Ryan Palmer, dated 27 February, 2018 (Attachment 17: Mayoral correspondence: Merger Proposal/Strategic Alliance Options)

During this prolonged period, Council was effectively delayed in implementing the long-term strategic decisions about future funding options that it had identified as being necessary to improve Council’s financial sustainability. Special Rate Variations were not able to be considered while merger proposals were being formally investigated, and Council was also prevented from borrowing funds from NSW Treasury.

In October 2017 Council resolved to investigate a Special Rate Variation to address Council's infrastructure backlog with the view to pursue a Special Rate Variation for the 2018/2019 financial year (Council Minute No. 37550).

Further, in November, 2017 Council resolved the following:

- 1. Council continue to investigate a special rate variation to address council's budget deficit and infrastructure backlog with the view to pursue a special rate variation for the 2019/2020 financial year;*
- 2. Council to conduct extensive and varied community engagement to determine the community's service level requirements and corresponding special variation increase;*
- 3. Any proposed special rate variation is incorporated into Council's relevant IP&R documents for approval, exhibition and adoption prior to an application to IPART (Council Minute No. 37583)*

The Office of Local Government (OLG) continued to monitor Dungog Shire Council's performance against 'Fit for the Future' benchmarks and invited Council to submit its updated Reassessment Proposal outlining the actions it will take to improve its financial sustainability, infrastructure and service management and efficiency. Council's Reassessment Proposal was submitted to OLG on 1 August 2018 – refer Attachment 6.

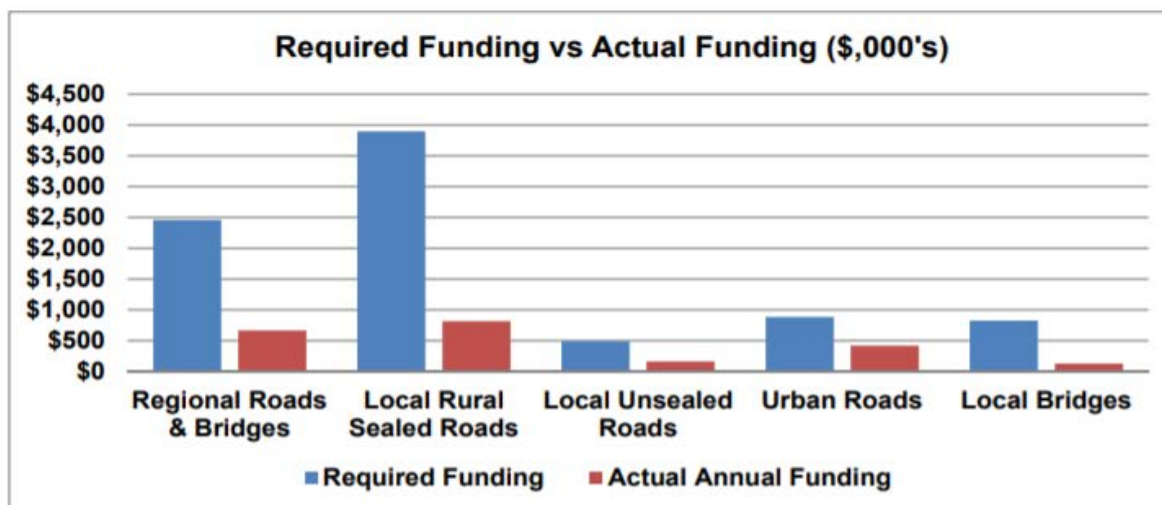
To ascertain Council's financial sustainability position Council engaged Morrison Low to undertake an independent financial sustainability assessment including the need for a potential SRV.

The key outcome of this assessment highlighted significant sustainability issues, namely inadequate funding for the maintenance and renewal of community infrastructure, a high backlog ratio, ongoing operating deficits which placed pressure on maintaining existing services, and councils longer term financial capacity.

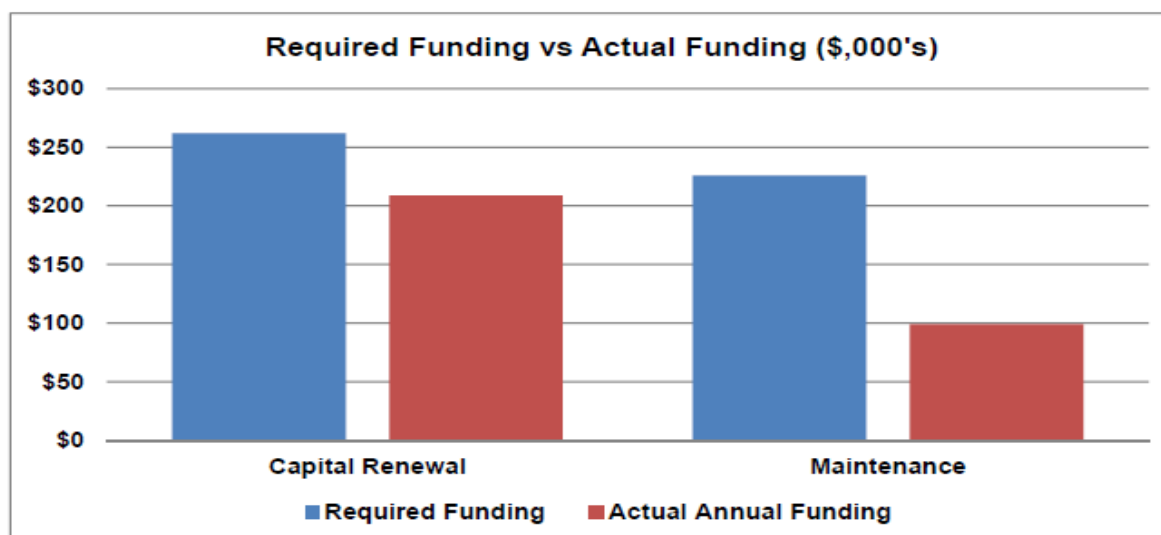
Council has been unable to generate sufficient revenue over a long period of time to fund the required asset renewal. Council has delivered operating deficits for several consecutive years, therefore ongoing failure to address this funding gap will result in a proportionate worsening of Council's financial position and the infrastructure backlog, which is already falling short of the sustainable target.

Council has an estimated infrastructure backlog of \$18,344,000 (as at May 2018 – the 2017/2018 figure is \$22,780,000) which represents 6.47% of its written down infrastructure asset value. The prescribed industry benchmark is less than 2%. Council has not spent adequate funds on asset maintenance and renewal over the last several years with a current shortfall of \$6.1M identified. In addition to this, the current shortfall in Council's funding of required infrastructure asset maintenance is \$1.7M per annum. This is illustrated in the following graphs:

BAR CHART 6: ROADS AND BRIDGES FUNDING (NB: this graph excludes one-off special purpose grants on Regional Roads)



BAR CHART 7: COMMUNITY BUILDINGS FUNDING (excluding Admin Building)



Council has, and continues to improve its financial sustainability through a range of initiatives. Council has reviewed its operating expenditure on an on-going basis over a number of years to explore opportunities to reduce operating expenditure. In addition, Council has considered all opportunities to maximise non-rating income. Dungog Shire Council has a very low revenue base to anchor the various services required of a modern council and there are very few options to increase revenue, other than through a general rates increase. Council has concluded that a Special Rates Variation is necessary to undertake the necessary asset renewal and maintenance requirements and deliver sustainable services into the future.

Council's approach to debt is that it be used to fund the cost of major infrastructure renewals to correct the infrastructure backlog and reduce operating maintenance costs. In addition, debt is used to enable Council to capitalise on funding opportunities for infrastructure

renewal or planned expenditure on new assets where there is grant funding available that requires a co-contribution from Council. Given Council's current financial position it has limited capacity to make additional loan repayments of principle and interest.

Council has been unable to increase rates or borrow funds due to Government Policy whilst it was part of three merger proposals, it has continued to review and revise its Improvement Plan, and has developed a Long Term Financial Plan that models the outcomes of two future scenarios:

1. Without the implementation of the Improvement Plan strategies; and
2. With the inclusion of the Improvement Plan strategies.

The second scenario includes the proposal for a special rate variation that will increase Council's general rates revenue with a cumulative increase of 97.8% over a 7 year period, including the cumulative rate peg increase of 18.9% per annum. The proposed tapered Special Rate Variation option over a 7 year period is modelled to commence in July 2019 and is as follows:

- Years 1 & 2 = 15% (2.5% rate cap plus 12.5% SRV)
- Years 3, 4 & 5 = 10% (2.5% rate cap plus 7.5% SRV)
- Years 6 & 7 = 6% (2.5% rate cap plus 3.5% SRV);

Noting the Rate peg limit of 2.7% was announced following endorsement of the above structure with year 1 – Rate cap 2.7% plus 12.3% SRV.

Under the Improvement Plan Scenario 2, the Fit for the Future Operating Performance Ratios are corrected, indicating a return to financial sustainability. Asset renewal and maintenance funding is increased, and the Infrastructure Backlog ratio is returned, close to target levels, over the 10 year planning period. The following tables are from the performance measures within the Resourcing Strategy – LTFP Attachment 7: pages 94-96.

Figure 1 Operating Surplus before Capital Grants and Contribution

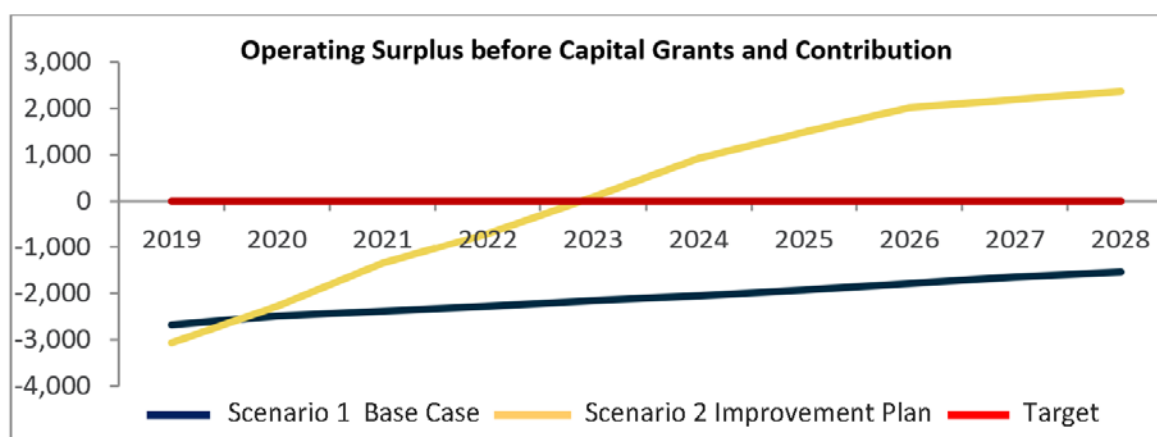


Figure 2 Operating Performance Ratio

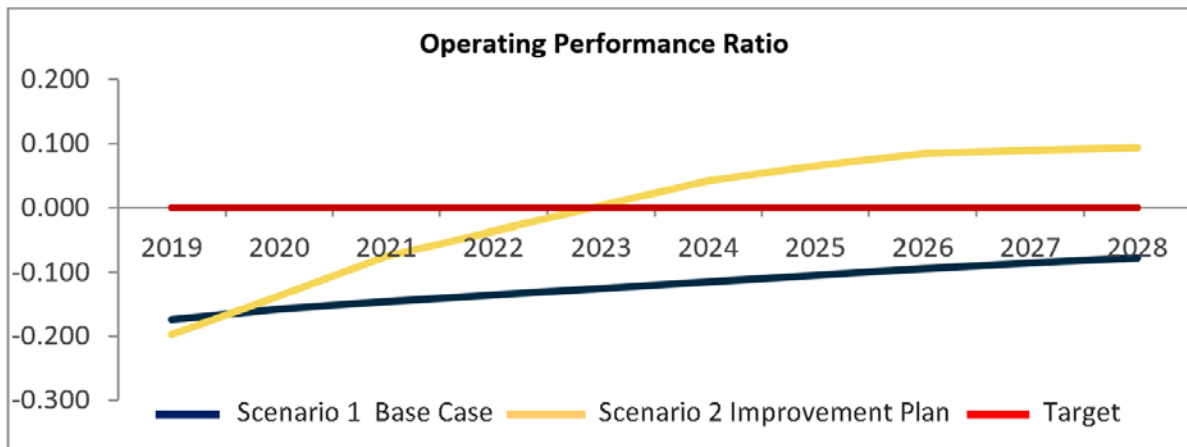


Figure 3 Own Source Revenue Ratio

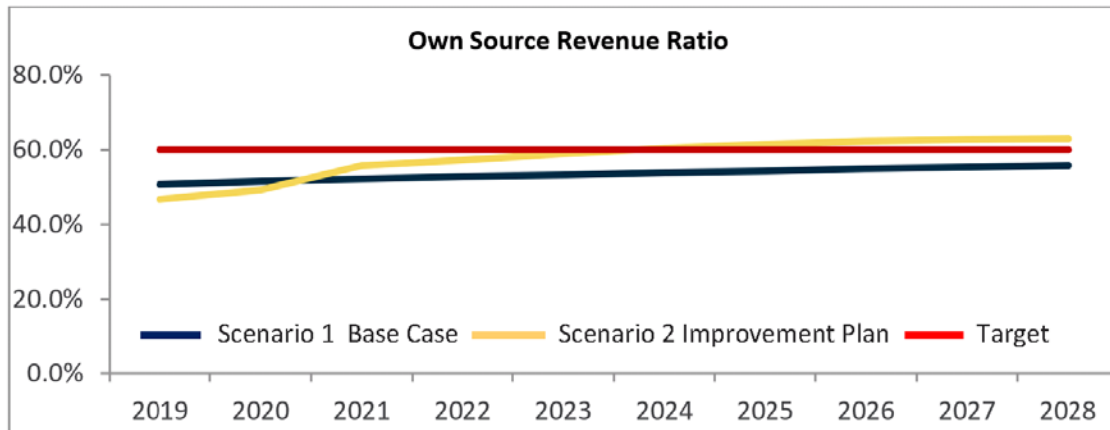


Figure 4 Building and Infrastructure asset renewal ratio

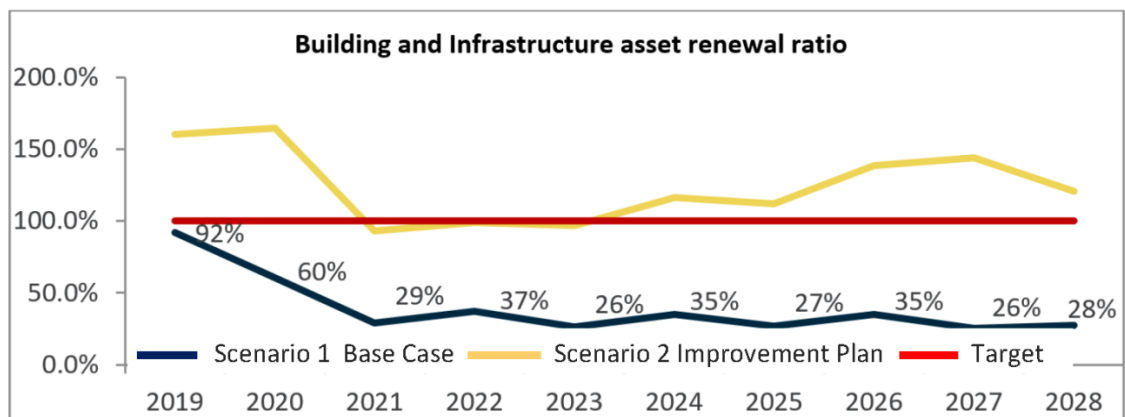


Figure 5 Building and Infrastructure backlog ratio

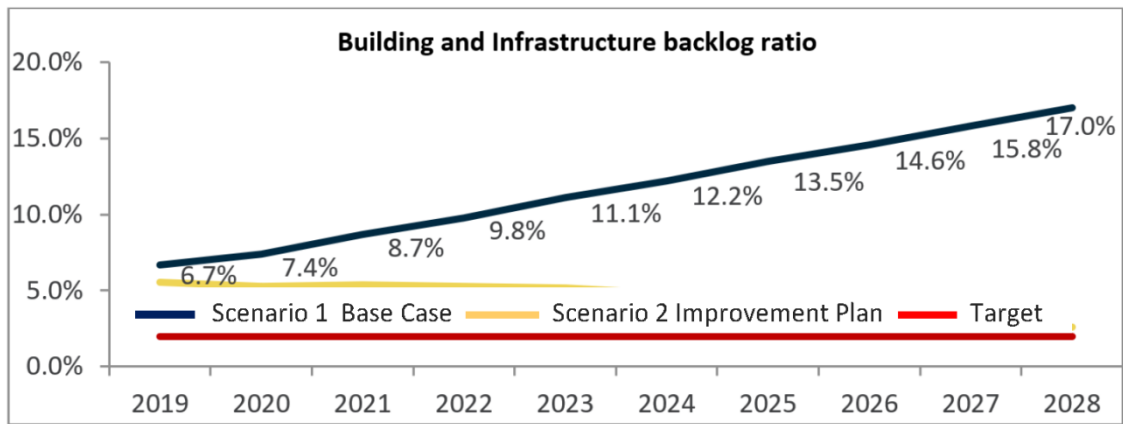


Figure 6 Asset Maintenance Ratio

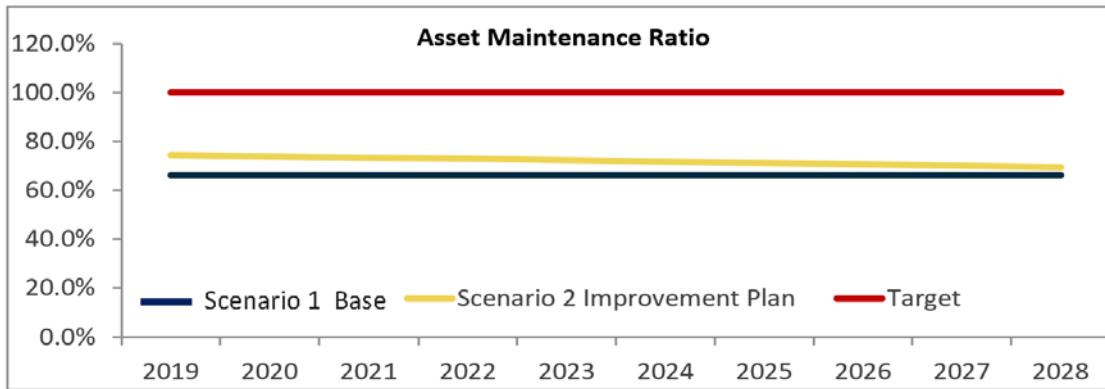


Figure 7 Real Operating Expenditure per Capita

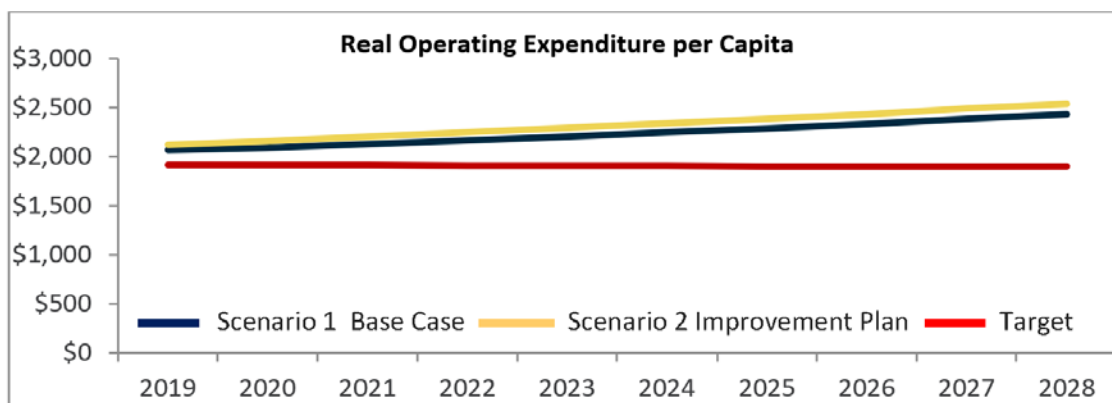
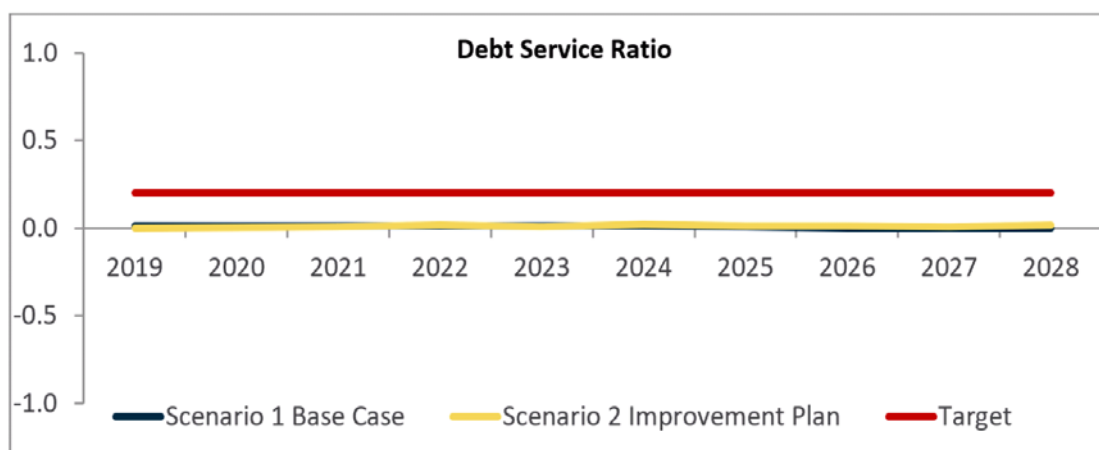


Figure 8 Debt Service Ratio



Council receives additional rates revenue which improves the bottom line, generating an operating surplus by the fourth year from 2022-23. This indicates that Council has become financially sustainable and has some financial capacity to respond to opportunities or threats as they arise.

As a small rural council, Dungog Shire will always remain dependent on grant funding from other levels of government. However, in Scenario 2 it has generated additional revenues from within the local government area, reducing its level of dependence, and meets the Government's criteria for "own source funding." Council has a low level of manageable borrowings that have been used to fund infrastructure renewal programs. The infrastructure backlog reduces over the life of the planning period, reaching 2.6% by 2028. The increased revenue is focused on infrastructure renewal, but only goes a small way to improving Council's asset maintenance ratio, which remains at approximately 70% over the 10 year planning period.

Council was mindful in establishing the quantum of a proposed special variation to generate the financial capacity to commence addressing the infrastructure issues, to deliver current service levels into the future while creating an operating result that would build its financial capacity.

The proposed Special Rate Variation rationale, purpose, and implications were included in the amended Community Strategic Plan 2030, Delivery Program 2018-2022 and Resourcing Strategy 2018-2022 following a series of community workshops held across the Shire during 2018. Following these workshops, all the amended IP&R documents were placed on public exhibition during November and December 2018 and no submissions were received. Council adopted the amended IP&R documents on 19th December 2018.

At the same time Council exhibited the amended Hardship Policy (Attachment 18) and the four Asset Management Plans and no submissions were received.

3.2 Financial sustainability

The proposed special variation may be intended to improve the council's underlying financial position for the General Fund, or to fund specific projects or programs of expenditure, or a combination of the two. We will consider evidence about the council's

current and future financial sustainability and the assumptions it has made in coming to a view on its financial sustainability.

You should explain below:

- ▼ The council's understanding of its current state of financial sustainability, its long-term projections based on alternative scenarios and assumptions about revenue and expenditure.
- ▼ Any external assessment of the council's financial sustainability (eg, by auditors, NSW Treasury Corporation). Indicate how such assessments of the council's financial sustainability are relevant to supporting the decision to apply for a special variation.
- ▼ The council's view of the impact of the proposed special variation on its financial sustainability.

3.2.1. CURRENT STATE OF FINANCIAL SUSTAINABILITY

It is evident that Council is currently financially unsustainable, given the information and evidence provided in 3.1.6 above. This includes the 2013 TCorp assessment - Attachment 15, 2013 Local Government Infrastructure Audit – Attachment 16, and the IPART Fit for the Future assessment – Attachment 19. The NSW Auditor General's 2017 report to Parliament on NSW Local Government also showed Dungog Shire Council did not meet the Operating Revenue or Asset Management performance measures – Attachment 20. Morrison Low assessment and LTFP - Attachments 7 and 29.

As previously mentioned, Dungog Shire Council has delivered operating deficits for several consecutive years and the implications are that the existing asset stock is being run down and that current service levels are unlikely to be sustainable unless revenue is increased.

Council evaluated its need for a special variation, reviewing its financial sustainability options, with the assistance of Morrison Low. The financial evaluation and assessment found that:

- Council is not able to meet the majority of the 'Fit for the Future' ratios by continuing with its current operation.
- Council has very limited unrestricted cash.
- Operating deficits have been occurring for a prolonged period and will continue into the future.
- Council's current revenue base of \$15.6 million (excluding capital revenue) is very low.
- Council needs to increase its funding of infrastructure maintenance and renewal.

The assessment concluded that Council's current operation is financially unsustainable.

Council's largest revenue sources are general rates income, and government grants and contributions. Council has very limited scope to generate additional revenue sources through fees and charges. Its operations are focused on traditional general fund council services. User fees and charges are raised where they can be tied to reasonable costs and where the community is willing to pay for service.

Council has limited capacity to generate significant dollar savings through productivity improvements and cost reduction strategies. However, Council has in place a productivity improvement plan with a range of actions. These are detailed in FFTF Reassessment Proposal Attachment 6, pages 33 and 34. Section 7 of this application details a range of improvement actions with savings incorporated into the LTFP.

As at May 2018 Council has an estimated infrastructure backlog of \$18,344,000 (this figure has increased to \$22,780,000 in 2017/2018) which represents 6.47% of its written down infrastructure asset value, as compared to the local government prescribed industry benchmark of less than 2%. Council has not been able to spend adequate funds on asset maintenance and renewal over the last several years and the current shortfall in Council's funding of required infrastructure asset maintenance is \$1.7 million per annum.

The total level of Council's cash and investments indicate it has adequate liquidity. However, it has a very low level of unrestricted cash, cash that is not already committed for a specific purpose. It has a low level of debt and additional capacity to borrow funds, if they can be used to reduce future operating costs.

Council has a relatively low cost per capita for the delivery of services when compared to its peer group councils. Using the NSW Office of Local Government 2016-2017 Council Comparative Time Series Data, Dungog's \$2,241 total operating cost per capita is 65% of the peer group average and a third of the highest Council's cost per capita. This is indicative that Dungog offers a smaller range of services comparatively and that Council has minimised the cost to ratepayers for its services through years of efficiency savings driven by the reduction in real net operating revenues over time. It also indicates that Council is at risk of under-resourcing its regulatory and compliance responsibilities.

Given the expectations of the community and government, and the evidence that Council's current revenue streams are not sufficient, Council is of a view that to sustain assets, deliver current services, and remain viable into the future, it requires a special variation.

The revised Long Term Financial Plan has been prepared to ensure that Council can continue to provide current services while developing actions to better manage its assets. Additional infrastructure works (maintenance and renewal) are required to ensure that service levels do not diminish and inter-generational equity is maintained. The approach also provides Council with sufficient cash flows to remain financially sustainable, which is a key focus for a sustainable Council.

3.2.2. EXTERNAL ASSESSMENT OF COUNCILS FINANCIAL SUSTAINABILITY

As previously mentioned, Council engaged Morrison Low to undertake a financial assessment and develop a LTFP including SRV options, and work with them to undertake elements of the community engagement program.

Morrison Low determined Dungog Shire Council is not financially sustainable within its current level of funding.

Council has a very low revenue base to anchor the various services required of a modern council and there are very few options to increase revenue, other than through a general rate increase. Council's inability to reach own source revenue targets and operating surplus

ratios tangibly highlights the need to increase general rates. Additionally, the financial evaluation and assessment found that:

- Council is not able to meet the majority of the 'Fit for the Future' ratios by continuing with its current operation.
- Council has very limited unrestricted cash.
- Operating deficits have been occurring for a prolonged period and will continue in to the future.
- Council's current revenue base of \$15.6 million (excluding capital) is very low.
- Council needs to increase its funding of infrastructure maintenance and renewal.

The assessment concluded that Council's current operation is financially unsustainable.

3.2.3. IMPACT OF PROPOSED SRV ON COUNCIL'S FINANCIAL SUSTAINABILITY

In considering these objectives, Council developed and exhibited two long-term financial plan scenarios:

- **Scenario 1 – Base Case**

The Base Case scenario is based on the current operations of the Council, and models the effect of not implementing any special rate variation or the proposed infrastructure loan borrowing program. Details of the modelling are on page 87 in the Resourcing Strategy 2018-2022 at Attachment 3. In the Base Case scenario, Council maintains its income and expenditure levels, based on the 2018-19 Operational Plan.

Scenario 1 is predicated on the idea that no significant changes will occur in terms of the level and nature of services provided by Council, the amount of funding required for the maintenance, replacement and renewal of assets, or the general environment in which council operates. It shows what happens if no action is taken to improve performance against the key performance ratios.

This scenario presents a continuation of a 'status quo' or 'do nothing' situation where Council delivers existing services and continues to invest at the current levels in asset renewals. Based on this scenario Council cannot be considered to be financially sustainable, with operating deficits every year, and increasing its infrastructure backlog to a point that will be unacceptable.

As detailed on page 88 Attachment 4 - Resourcing Strategy, the performance modelling indicates Dungog Shire Council does not meet many of the performance measure benchmarks over the planning period, under this scenario.

Under this scenario Council's annual operating deficit averages around 11% per annum, and the immaterial levels of unrestricted cash available as working funds are not improved.

Council does not have the resources to respond quickly to opportunities or risks as they arise; and although Council has a very low debt ratio, it has limited capacity to increase

borrowings due to its negative operating result. Over time Council's focus will increasingly be interrupted to respond to the risks faced in relation to its failing infrastructure. The infrastructure backlog grows over the life of the planning period, reaching 17% by 2028. At that time, Council will only be funding the renewal of community infrastructure at a rate of 28% per annum, causing a continuous cycle of further deterioration.

- **Scenario 2 – Improvement Plan**

The modelling in Scenario 2 (pg 90-93 Attachment 3 Resourcing Strategy 2018-2022) is based on the implementation of the following critical financial initiatives designed to correct the financial position of Council:

1. Increase revenue with a proposed tapered Special Rates Variation commencing in 2019-20 at 15% for 2 years, then 10% for 3 years, followed by 6% for 2 years. (NB: This approach represents a cumulative increase in rates of 97.8% over 7 years, which includes the cumulative increase of 18.9% from the rate peg increase).
2. Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
3. Additional annual budget for Council's infrastructure maintenance program of \$450,000 per annum, increasing annually.
4. Additional annual budget for community infrastructure renewal, with a focus on roads and bridges. On average an additional \$4.8 million per annum.

As displayed in the key performance measures page 39 Attachment 4, Dungog Shire Council improves on all of the performance measure benchmarks over the planning period. Council receives additional rates revenue which improves the bottom line, generating an operating surplus by the fourth year from 2022-23. This indicates that Council is becoming financially sustainable and has some financial capacity to respond quickly to opportunities or risks as they arise.

As a small rural council, Dungog Shire will always remain dependent on grant funding from other levels of government. However, in Scenario 2 it has generated additional revenues from within the local government area, reducing its level of dependence, and meets the Government's criteria for "own source funding." Council has a low level of manageable borrowings that have been used to fund infrastructure renewal programs. The infrastructure backlog reduces over the life of the planning period, reaching 2.6% by 2028. However, it has not generated adequate revenue to fund 100% of the required asset maintenance and this presents a risk in providing long-term affordable community infrastructure at a satisfactory level of service. This circumstance is intended to be addressed by Council's adopted Asset Planning documents that seek to improve asset management performance and reduce non-essential assets and/or maintenance.

It is evident that Council requires a Special Rate Variation to achieve a level of financial sustainability that will enable the renewal and maintenance of assets and the delivery of services to an acceptable standard into the future. Council, through a range of community engagement activities, has clearly demonstrated that the community is aware of the challenges facing Council and the need to increase rates to sustain the future of the community and council.

3.3 Financial indicators

How will the proposed special variation affect the council's key financial indicators (General Fund) over the 10-year planning period? Please provide, as an addendum to the Long Term Financial Plan, an analysis of council's performance based on key indicators (current and forecast) which may include:

- ▼ Operating performance ratio excluding capital items (ie, net operating result excluding capital grants and contributions as percentage of operating revenue excluding capital grants and contributions).
- ▼ Own source revenue ratio (ie, total operating revenue excluding capital items as a percentage of total operating revenue including capital items).
- ▼ Building and asset renewal ratio (ie, building and infrastructure asset renewals as a percentage of building and infrastructure depreciation, amortisation and impairment)
- ▼ Infrastructure backlog ratio (ie, estimated cost to bring assets to satisfactory condition as a percentage of total (written down value) of infrastructure, buildings, other structures, depreciable land and improvement assets)
- ▼ Asset maintenance ratio (ie, actual asset maintenance as a percentage of required asset maintenance).
- ▼ Debt service ratio (principal and interest debt service costs divided by operating revenue excluding capital grants and contributions).
- ▼ Unrestricted current ratio (the unrestricted current assets divided by unrestricted current liabilities).
- ▼ Rates and annual charges ratio (rates and annual charges divided by operating revenue).

Details of the performance measure results and analysis for scenarios 1 and 2 are contained in the Resourcing Strategy 2018-2022 at pages 87-88, 90-92 and pages 94-96; Asset Planning pages 124 and 126 – Attachment 4.

The tables below (pages 88 and 92) from Attachment 4 the Resourcing Strategy – LTFP, clearly illustrate the Council's focus in Scenario 2, with the Special Rate Variation, on enhancing financial sustainability.

Under Scenario 2, Council is projected to reach an operating surplus position by 2022-23, growing to 9.4% by 2027-28.

Without the special variation, under Scenario 1, Council forecasts consistent operating deficits over the ten year planning period. Hence, without the special variation, the Council's sustainability would continue to deteriorate, and it would not generate sufficient funds to address its infrastructure backlog and service the community.

Under Scenario 1, the infrastructure backlog continues to grow over the ten year planning term, reaching 17% by 2027-2028. At that time, Council will only be funding the renewal of community infrastructure at a rate of 28% per annum, causing a continuous cycle of further deterioration.

Under Scenario 2, there is an additional annual average budget of \$4.8 million for infrastructure renewal, funded by the Special Rate Variation and incorporating the proposed

borrowing program and additional capital grants that are able to be sourced with the co-contribution amount. There are two main outcomes derived from additional capital renewal, being a reduction in the required maintenance, based on technical information, and a reduction in the infrastructure backlog. Under this scenario, the infrastructure backlog reduces over the life of the planning period, reaching 2.6% by 2027-2028.

Scenario 1 (Base case) Performance measures

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Operating Results (Surplus) before Capital Grants (achieve and maintain a positive operating balance)	(2,687)	(2,505)	(2,389)	(2,288)	(2,169)	(2,056)	(1,927)	(1,800)	(1,661)	(1,554)
Operating Performance Ratio	-17.3%	-15.7%	-14.6%	-13.6%	-12.5%	-11.5%	-10.4%	-9.5%	-8.5%	-7.7%
Own Source Revenue Ratio	50.82%	51.53%	52.24%	52.77%	53.35%	53.87%	54.40%	54.90%	55.43%	55.88%
Own Source Revenue Ratio including FAGs (target is more than 60%)	63.44%	63.96%	64.49%	64.89%	65.32%	65.71%	66.13%	66.53%	66.96%	67.32%
Asset Renewal ratio	92%	60%	29%	37%	26%	35%	27%	35%	26%	28%
Infrastructure Backlog ratio (target to maintain at less than 2%)	6.7%	7.4%	8.7%	9.8%	11.1%	12.2%	13.5%	14.6%	15.8%	17.0%
Asset Maintenance ratio (target to maintain 3 year average at 100%)	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%
Debt Service Ratio (target is to maintain at less than 20%)	1.50%	1.41%	1.32%	1.23%	1.15%	1.07%	0.91%	0.00%	0.00%	0.00%
Real Operating expenditure per capita	\$2,070	\$2,095	\$2,130	\$2,168	\$2,209	\$2,249	\$2,293	\$2,336	\$2,386	\$2,436

Scenario 2 (Improvement Plan)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Operating Results (Surplus) before Capital Grants (achieve and maintain a positive operating balance)	(3,081)	(2,282)	(1,362)	(698)	88	925	1,483	2,021	2,191	2,366
Operating Performance Ratio	-19.7%	-13.6%	-7.5%	-3.7%	0.4%	4.2%	6.5%	8.4%	8.9%	9.4%
Own Source Revenue Ratio	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Own Source Revenue Ratio including FAGs (target is more than 60%)	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Asset Renewal ratio	160%	165%	93%	99%	97%	117%	112%	139%	144%	121%
Infrastructure Backlog ratio (target to maintain at less than 2%)	5.5%	5.3%	5.4%	5.3%	5.2%	4.8%	4.5%	3.7%	2.8%	2.6%
Asset Maintenance ratio (target to maintain 3 year average at 100%)	74%	74%	73%	73%	72%	72%	71%	71%	70%	69%
Debt Service Ratio (target is to maintain at less than 20%)	- 0.03%	0.41%	0.64%	1.99%	0.63%	1.98%	1.33%	1.37%	0.64%	1.58%
Real Operating expenditure per capita	\$2,126	\$2,163	\$2,207	\$2,249	\$2,294	\$2,339	\$2,387	\$2,437	\$2,491	\$2,545

4 Assessment criterion 2: Community awareness and engagement

Criterion 2 in the Guidelines is:

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the full cumulative increase of the proposed special variation in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

Our fact sheet on the requirements for community awareness and engagement is available on the IPART website.¹

In responding to this criterion, the council must provide evidence that:

- ▼ it has consulted and engaged the community about the proposed special variation using a variety of engagement methods and that the community is aware of the need for, and extent of, the requested rate increases
- ▼ it provided opportunities for input and gathered input/feedback from the community about the proposal, and
- ▼ the IP&R documents clearly set out the extent of the requested rate increases.

In assessing the evidence, we will consider how transparent the engagement with the community has been, especially in relation to explaining:

- ▼ the proposed cumulative special variation rate increases including the rate peg for each major rating category (in both percentage and dollar terms)
- ▼ the annual increase in rates that will result if the proposed special variation is approved in full (and not just the increase in daily or weekly terms)
- ▼ the size and impact of any expiring special variation (see Box 4.1 below for further detail), and
- ▼ the rate levels that would apply without the proposed special variation.

More information about how the council may engage the community is to be found in the Guidelines, the IP&R manual and our fact sheet.

¹ <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-special-variation-or-minimum-rate-increase>

Box 4.1 Where a council is renewing or replacing an expiring special variation

The council's application should show how it has explained to its community:

- ▼ There is a special variation due to expire at the end of the current financial year or during the period covered by the proposed special variation. This needs to include when the expiring special variation was originally approved, for what purpose and the percentage of (General Fund) general income originally approved.
- ▼ The corresponding percentage of general income that the expiring special variation represents for the relevant year.
- ▼ Whether the temporary expiring special variation is being replaced with another temporary or a permanent increase to the rate base.
- ▼ The percentage value of any additional variation amount, above the rate peg, for which the council is applying through a special variation.
- ▼ If the proposed special variation was not approved (ie, only the rate peg applies), the year-on-year change in rates would be lower, or that rates may fall.

The council also must attach, to its application to IPART, a copy of the Instrument of Approval that has been signed by the Minister or IPART Chair.

Box 4.2 Where a council has an existing s508A special variation and is applying for an additional s508(2) special variation

The council's application should demonstrate that it has explained to its community:

- ▼ There is a special variation already in place for the current year and the size of that special variation.
- ▼ The size and impact of the additional special variation proposed and its purpose.
- ▼ The cumulative annual increase in rates from the existing and proposed special variation together.

4.1 The consultation strategy

The council is required to provide details of the consultation strategy undertaken, including the range of methods used to inform and engage with the community about the proposed special variation and to obtain community input and feedback. The engagement activities could include media releases, mail outs, focus groups, statistically valid random or opt-in surveys, online discussions, public meetings, newspaper advertisements and public exhibition of documents.

The council is to provide relevant extracts of the IP&R documents that explain the rate rises under the proposed special variation and attach relevant samples of the council's consultation material.~

DUNGOG COUNCIL'S COMMUNITY CONSULTATION STRATEGY

1. INTRODUCTION

Dungog Shire Council embarked upon a comprehensive community engagement process with regard to a Special Rate Variation proposal.

Council's community engagement processes are guided by the NSW Government's social justice principles, Council's sustainability principles, the Community Vision Statement and Council's Mission Statement, each of which are as follows:

1.1. Social Justice Principles

Equity – there should be fairness in decision making, and prioritising and allocation of resources, particularly for those in need. Everyone should have a fair opportunity to participate in the future of the community. The planning process should take particular care to involve and protect the interests of people in vulnerable circumstances.

Access - all people should have fair access to services, resources and opportunities to improve their quality of life

Participation – everyone should have the maximum opportunity to genuinely participate in decisions which affect their lives

Rights – equal rights should be established and promoted, with opportunities provided for people from diverse linguistic, cultural and religious backgrounds to participate in community life

1.2. Council's Sustainability Principles:

Social enhancement - Council's decision making processes lead to greater physical, cultural and financial access and equity in the provision of services and facilities

Environmental quality - resources are used prudently in the delivery of Council services and facilities, improving overall environmental amenity, while reducing the effect on natural assets

Economic prosperity - sustainable local development of jobs, business prosperity and market growth is promoted and supported

Governance - Council business and activities are managed and undertaken in a manner that is transparent and accountable and achieve the long term goals of the organisation.

1.3. Community Vision Statement:

"A vibrant united community, with a sustainable economy. An area where rural character, community safety and lifestyle are preserved"

1.4. Dungog Shire Council's Mission Statement:

"To manage, enhance, and protect, the resources of the Shire, in consultation with the community."

2. ENGAGEMENT OBJECTIVES FOR COUNCIL

- Develop clear long term goals and priorities for the Dungog Shire
- Facilitate greater organisational understanding of, and participation in, the Integrated Planning and Reporting process
- Enhance the involvement of the community in the development of Council's Operation Plan and Delivery Program
- Build community understanding and involvement with the proposed Special Rate Variation proposal
- Build Council capacity in working effectively in partnership with local community groups
- Development of a cross-Council understanding of, and familiarity with, local communities
- Clearly identify how staff roles and activities relate to the broader community
- Provide Councillors with opportunities for frontline involvement in community engagement activities and outlining the Special Rate Variation proposal
- Build on the importance of good civic leadership in the community with regard to the roles of Mayor and Councillor.

3. ENGAGEMENT OBJECTIVES FOR THE COMMUNITY

- Identify community priorities and expectations for the future of the Shire
- Build positive relationships between Council and local communities
- Foster a greater community understanding of the roles and responsibilities of Council
- Provide opportunities for all community members to participate in the development of a vision and long term goals for the Shire
- Foster common understandings and productive relationships with other service delivery agencies within the public and private sector in Dungog Shire
- Determine community expectations regarding Council's service levels

4. STAKEHOLDERS

Stakeholders involved in the Special Rate Variation engagement process are identified as the residents of the Shire, the farming and business community of the Shire, elected State and Federal representatives, Government agencies that service the Shire, non government organisations, community associations, and sporting and recreation clubs.

5. BUILDING UPON THE COMMUNITY STRATEGIC PLAN 2030

In the development of the first iteration of the Community Strategic Plan 2030 Dungog Shire Council's community engagement process adopted an 'Appreciative Inquiry' approach as an effective tool for community visioning. This approach used a series of questions applied consistently across the forums and surveys to determine the participant's ideas and opinions according to the following themes:

- Where are we now? (What we value about the local community and area at present)
- Where are we going? (What are the significant local issues that need to be addressed)
- Where do we want to be? (Long term goals that we would like to achieve for the local area)
- How do we get there? (What strategies do we need to put in place to achieve our goals)
- How will we know when we've arrived? (Indicators of achievement of goals)

A total of 3830 comments were collated into the Council's database from the Appreciative Inquiry process. This information has informed the development of priorities in the Special Rate Variation process.

6. INVOLVING THE COMMUNITY IN THE SPECIAL RATE VARIATION PROPOSAL

6.1. Community Meetings

In totality, Council held 12 community meetings at various locations and times/dates across the Shire and 3 specialist workshops regarding the Special Rate Variation proposal.

In February 2018 Council wrote to all ratepayers inviting all members of the Dungog Shire community to attend a series of meetings developed to inform ratepayers of Council's current financial position and the need for Council to consider applying for a Special Rate Variation (see Attachment 21 – page 4). These meeting dates and times were also advertised in the local media, local radio, in the Mayoral Column and the Mayor's Facebook page.

Information on the proposed Special Rate Variation was also made available to residents at Dungog Shire Library, at the Council Administration building in Dungog, on Council's website and in a Frequently Asked Questions document mailed to ratepayers (see Attachment 21 – Page 29).

Over the month of March, 2018 the Acting General Manager and Executive Manager Infrastructure and Assets with the assistance of an independent facilitator, Mr Martin Bass from LGNSW presented at six (6) community meetings. These meeting were designed to outline why Council was considering applying for a special rate variation and to seek community feedback on the potential quantum of the rise. These meetings were held on week days during business hours and after hours and one hundred and nine (109) residents attended. Copies of presentations at these meetings are attached at Attachment 21 – Page 9. The meetings were held at the following locations across the Shire:-

- Doug Walters Pavilion, Dungog (2 meetings held at this location)
- Paterson School of Arts

- Clarence Town School of Arts
- Gresford School of Arts
- Vacy School of Arts

Nominations were sought from the community for a Special Rate Variation Community Reference Panel. The Panel was established and attended by ten (10) community members volunteers. The Panel engaged in three (3) further in depth workshop meetings.

Following feedback from the SRV Community Reference Panel meetings, that included Councillors and Council staff, Council scheduled a further six (6) community meetings (held on weekdays, weekends and after hours) that were attended by eighty-eight (88) residents at the following locations across the Shire:-

- Doug Walters Pavilion, Dungog (2 meetings held at this location)
- Paterson School of Arts
- Clarence Town School of Arts
- Gresford School of Arts
- Vacy School of Arts

At these meetings held in July 2018, the Mayor, Deputy Mayor, General Manager, Executive Manager Corporate Services and Executive Manager Infrastructure and Assets presented at these six (6) meetings and with the community explored ways to expand Council's revenue sources to ensure the provision of essential services and facilities to the community in the long term. Copies of presentations at these meetings are attached at Attachment 21 – Page 84. The PowerPoint presentations at the community meetings were made available on Council's website.

The Mayor, Deputy Mayor, some Councillors and the General Manager addressed the following community organisation meetings regarding the proposed SRV:-

- Dungog Country Labor Party
- Dungog and District Chamber of Commerce
- Clarence Town Progress Association
- Clarence Town Dungog Country Women's Association
- Gresford Community Group
- Paterson Rotary
- Patterson Progress Association

Council staff also provided Special Rate Variation information to meetings of Council's Section 355 Committees and to residents of Alison Court, Council's Self Care Aged Care Housing Facility.

6.2. Establishment of Community Panel

Members of the community were invited to participate on a Special Rate Variation Community Reference Panel. Ten (10) community members volunteered to be on the Panel and they were provided with further, more in depth information and given the opportunity to ask questions and provide input into the process of Council's consideration of the application to IPART for a Special Rate Variation. The SRV Community Reference Panel engaged in three (3) further workshop meetings with Council staff, consultants and Councillors.

Minutes of these meetings are attached at Attachment 21 – Page 48.

6.3. Community Surveys

In July, 2018 Council distributed a Special Rate Variation survey with the rate notices. Council distributed 4895 rate notices and received 507 completed surveys from residents, a return rate of 10.36%. Of the 507 respondents, 35 (7%) were still undecided, 245 (48%) were in support of the proposed SRV and 227 (45%) were not in support of the proposed SRV. The survey results give a good overview of community views on the matter, however, due to the potential for self-selection bias, it is not possible to attribute the same confidence to it as the Micromex telephone survey, which if reproduced would result in the same result 19 times out of 20 with a sampling error of 5.6%. However, it is interesting to note that the percentage results for this survey are similar to Micromex, noting that Micromex found 53% of residents selected the Improvement Plan and 47% of resident selected the rate peg only as their first preference

Between the 12th – 15th November, 2018 Council contracted Micromex Research to conduct a randomised telephone survey regarding the SRV. Micromex conducted 302 interviews that provided a sample size with a maximum sampling error of plus or minus 5.6% at 95% confidence. 277 of the 302 respondents were selected by means of a computer based random selection process using the electronic White Pages and SamplePages. In addition, 25 respondents were recruited face-to-face at a number of areas around the Dungog Shire Council area including the Dungog Show, Clarence Town IGA, Paterson IGA and Dungog IGA/Bakery/Coffee Bean Café. The Micromex Research results revealed;-

- 60% of residents were aware that Council was exploring community sentiment towards a SRV. Residents aged 18-34 were significantly less likely to be aware, while those who were aged 50-64 and those that are ratepayers were significantly more likely to be aware. Nearly half (47%) of residents who were aware of the SRV were made aware by 'mail out' and 31% by newspaper advertisement.
- 47% of respondents indicated that rate peg only was their first preference
- 53% of respondents indicated that the Improvement Plan was their first preference.

6.4. Community Information Provided in Print Media and Radio

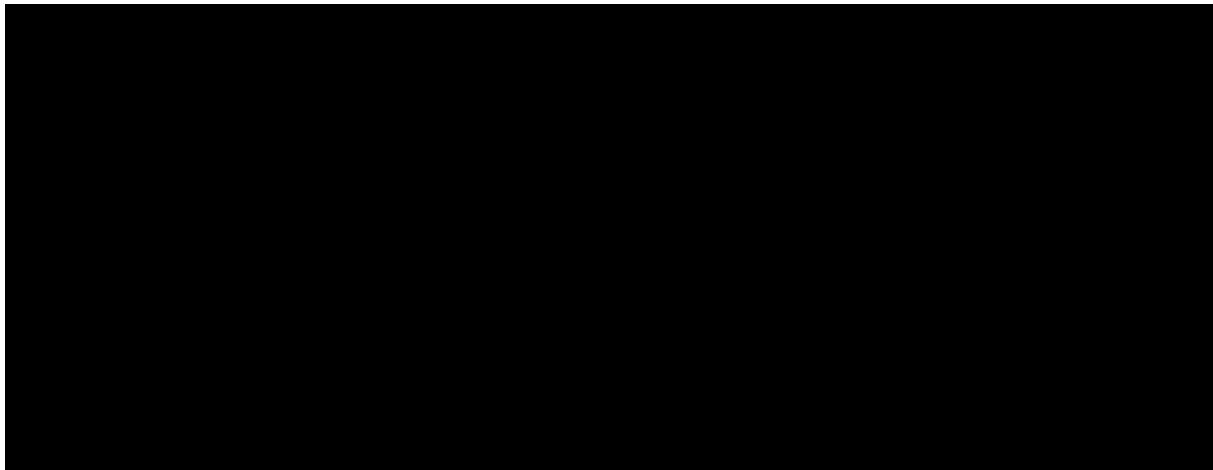
Information regarding the Special Rate Variation has been regularly included in the Mayor's weekly column, distributed via email to over 180 community members and also placed in local business outlets (cafes, post office etc) across the Shire. At least ten (10) editions of the Mayoral Update, which is also printed in the Dungog Chronicle, included information on the SRV. The Mayor also engages in weekly interviews (each Friday) on Dungog Community

Radio which on numerous occasions have covered the topic of the Special Rate Variation. The General Manager on two occasions also engaged with Dungog Community Radio specifically to address the Special Rate Variation proposal. See Attachment 22

Media regarding the SRV has been distributed via the following outlets:

- The Dungog Chronicle
- The Gresford News
- The Clarence Town Spotlight
- The Paterson PSST
- The Newcastle Herald
- ABC Radio Newcastle 1233
- Newcastle Weekly
- The Land Newspaper
- Dungog Community Radio; and
- Channel 9 News (Newcastle).

The most recent coverage by the Dungog Chronicle (6 February, 2019) regarding Council's intended application for a Special Rate Variation to IPART was well balanced and reflects generally the community response. Please see below.



6.5. Community Information Provided in Electronic/Social Media

Council's webpage also included a Special Rate Variation information page that included the following information for residents:-

- Special Rate Variation – Estimator/calculator
- Community Newsletter 2018
- Community Newsletter SRV Survey 2018
- SRV Presentation - Introduction - General Manager
- SRV Presentation - Securing Our Future - Corporate Services
- SRV Presentation - Managing Our Assets - Infrastructure & Assets
- SRV Information Package
- Rates Frequently Asked Questions
- Dungog Shire Council Finances - Fast Facts
- Dungog Shire Council Hardship Policy

6.6. Mayor's Mobile Office

In 2018 the Mayor of Dungog, Cr Tracy Norman held an open office every Friday of the week in Dungog (224 Dowling Street, Dungog). Members of the community dropped in and discussed all range of matters, including the proposed Special Rate Variation. The Mayor also operates a Mobile Mayor's Office (utilising a privately owned campervan) that sets up in locations around the Shire on most Saturday mornings. Throughout 2018 the Mayoral Mobile Office advertised Special Rate Variation meetings and discussed Special Rate Variation matters.

6.7. Community Information Provided in Council's Business Papers

On nine (9) occasions, Council reports have specifically dealt with matters pertaining to the proposed SRV. Publically available reports were listed in the Agenda and Minutes of Council's Ordinary Meetings. Councillors have also held strategic workshops regarding the proposed SRV. Meetings containing SRV content included:

1. Ordinary Meeting, October 2017- COUNCIL IMPROVEMENT PLAN - SPECIAL RATE VARIATION
2. Ordinary Meeting, November 2017 - SPECIAL RATE VARIATION INVESTIGATION
3. Ordinary Meeting, September 2018 - PROPOSED SRV COMPONENT FOR REGIONAL ROADS
4. Ordinary Meeting, November 2018 - THE IMPACT OF PROPOSED 98% SRV ON FARMING FAMILIES
5. Ordinary Meeting, November 2018 - HARDSHIP POLICY REVIEW

6. Ordinary Meeting, November 2018 - PUBLIC EXHIBITION OF INTEGRATED PLANNING AND REPORTING DOCUMENTS

7. Ordinary Meeting, December 2018 – SPECIAL RATE VARIATION

8. Extra Ordinary Meeting, January 2019 – ALIGNMENT OF INTERGRATED PLANNING AND REPORTING DOCUMENTS

9. Extra Ordinary Meeting, February 2019 – ALIGNMENT OF INTERGRATED PLANNING AND REPORTING DOCUMENTS.

6.8. SRV Information Provided to Elected State and Federal Representatives

On behalf of Council, the Mayor has corresponded with the following elected representatives ensuring that they have the necessary details regarding Council's proposed SRV that can be passed onto their constituents:-

The Hon. Michael McCormack MP – Deputy Prime Minister

The Hon. Dr David Gillespie – Federal Member for Lyne

The Hon. John Barilaro MP – NSW Deputy Premier, Minister for Regional NSW

The Hon Melinda Pavey MP – NSW Minister for Roads, Maritime and Freight

Mr Michael Johnsen MP – Nationals Member for the Upper Hunter

The Hon. Scot MacDonald – Parliamentary Secretary for Planning, Central Coast & Hunter

The Hon. Peter Primrose MLC – NSW Labor Party, Shadow Minister for Local Government

Mr John Preston – (former) NSW Fishers, Shooters and Farmers Party Candidate, Upper Hunter

Ms Lee Watts – NSW Fishers, Shooters and Farmers Party Candidate, Upper Hunter

Mr Martin Rush – (former) NSW ALP Candidate, Upper Hunter

6.9. Council letter to all ratepayer properties

In January, 2019 the General Manager individually wrote to all rate payers advising them of Council's decision to seek a Special Rate Variation via IPART. The letter clearly outlined the proposed increase, including the cumulative impact, advised of the purpose of the Special Rate Variation, provided an overview of other strategic initiatives being undertaken by Council to improve Council's financial sustainability, gave information to the community regarding Council's Hardship Policy and provided advice regarding further submissions to IPART. A copy of this letter is attached at Attachment 23.

Importantly the letter also advised all ratepayers of a proposed minor amendment to Council's Delivery Program 2018-2022 that was to be made at the January 2019 Extra Ordinary Meeting of Council and resolved at the February 2019 Extra Ordinary Meeting. This amendment ensured that Council's IP&R documents aligned and were presented in

accordance with the Office of Local Government Guidelines (the Delivery Program is required to include the cumulative special rate variation increase figure).

Council's Resourcing Strategy 2018-2022, which is addended to Council's Delivery Program 2018-2022, had the following information contained within:-

"The cumulative increase in rates is 97.8% over 7 years, including the cumulative increase of 18.9% from the rate peg increase".

Council's Delivery Program 2018-2022, which was publically exhibited with Council's Resourcing Strategy 2018-2022 had the following information contained within: Year 1 & 2 – 15% (2.5% rate cap plus 12.5% SRV)

Years 3, 4 & 5 – 10% (2.5% rate cap plus 7.5% SRV)

Year 6 & 7 – 6% (2.5% rate cap plus 3.5% SRV)

Council resolved to align the document and include in the Delivery Program the following:

Year 1 & 2 – 15% (2.5% rate cap plus 12.5% SRV)

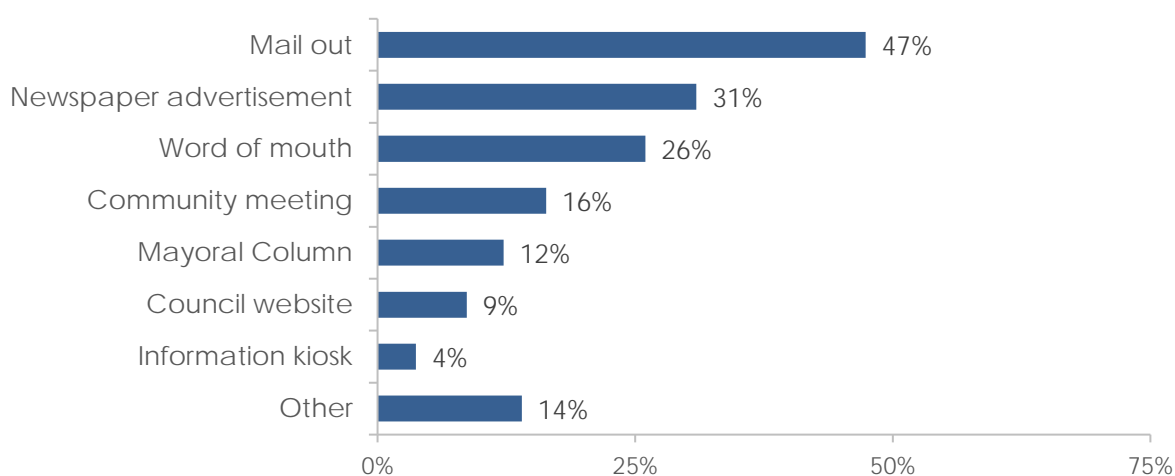
Years 3, 4 & 5 – 10% (2.5% rate cap plus 7.5% SRV)

Year 6 & 7 – 6% (2.5% rate cap plus 3.5% SRV)

The cumulative increase in rates is 97.8% over 7 years, including the cumulative increase of 18.9% from the rate peg increase.

The success of the above described mediums utilised by Council to ensure community awareness of the proposed Special Rate Variation is outlined in Bar Chart 5 below. This information was provided as part of the randomised phone survey conducted by Micromex in late 2018. Importantly, 60% of residents contacted by Micromex were aware that Council was exploring community sentiment towards a Special Rate Variation.

BAR CHART 8: SOURCE OF INFORMATION ON A SPECIAL RATE VARIATION



4.2 Feedback from the community consultations

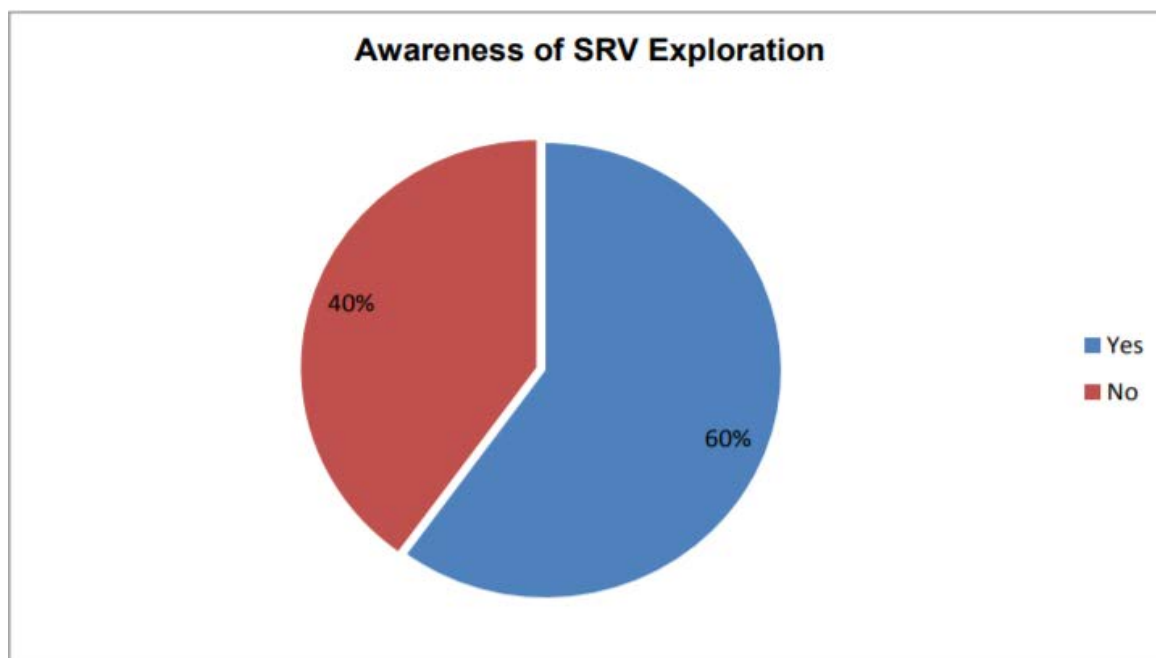
Summarise the outcomes and feedback from the council's community engagement activities. Outcomes could include the number of attendees at events and participants in online forums, as well as evidence of media reports and other indicators of public awareness of the council's special variation intentions. Where applicable, provide evidence of responses to surveys, particularly the level of support for specific programs or projects, levels and types of services, investment in assets, as well as the options proposed for funding them by rate increases.

Where the council has received submissions from the community relevant to the proposed special variation, the application should set out the views expressed in those submissions. Please refer to Section 1.2 concerning how the council should handle confidential content in feedback received from the community. The council should also identify and document any action that it has taken, or will take, to address issues of common concern within the community.

Dungog Shire Council engaged extensively with the community on its current financial situation and options to address the challenges facing Council and the wider Shire. Detailed outcomes of Council's Community Engagement Strategy are contained at 4.1 and at Attachments 10a and 10b.

Results from a randomised telephone survey conducted by Micromex Research revealed that 60 % of residents are aware of Council's Special Rate Variation exploration.

PIE CHART 1: RESIDENT AWARENESS OF SRV EXPLORATION



The Community Engagement Strategy comprised of provision of information, public meetings, focus group sessions, community panels, written submissions, telephone surveys and a community survey.

The engagement involved the provision of information by direct mail to all residents and access to information on Council's website. This information included a fast facts, Frequently Asked Questions, staff presentations, rates calculators, and access to staff and Councillors to respond to community questions.

Information regarding the Special Rate Variation has been regularly included in the Mayor's weekly column, distributed via email to over 180 community members and also placed in local business outlets (cafes, post office etc) across the Shire. At least ten (10) editions of the Mayoral Update included information on the SRV. The Mayoral Column is also distributed via Face Book and each week is placed on Council's webpage. (See Attachment 22)

Council conducted 12 community meetings at various locations and times/dates across the Shire attended by 197 residents and 3 workshops regarding the Special Rate Variation proposal. These sessions provided an opportunity for community members to provide feedback, seek clarification and ask questions of staff, the Mayor and Councillors. Each workshop received a presentation and was provided with the opportunity to respond to key issues regarding the future sustainability of Council.

The Minutes of the community meetings are attached at Attachment 21 – p48, the summary of matters raised is as follows, including Council's response as provided at the meetings:

RESIDENT QUESTION 1 - *A quick calculation means rates will increase by \$1400 over 7 years and will not be able to afford this and will probably move out of the area*

COUNCIL RESPONSE – Clarification given that the proposed increase is only applicable to General Rates. Council is aware that some families will struggle with the rise and this will be considered in the review of Council a Hardship Policy. Council is also willing to work with financial counselling services to assist residents with these issues. Modelling of Council's rates compared to neighbouring councils and Group 10 Councils after 7 years shows that Dungog's rates will be mid-range.

RESIDENT QUESTION 2 - *Is Council compensated for the non-rateable land?*

COUNCIL RESPONSE – No, conversations have been had with State Government, the Country Mayor's Association and Hunter Water on this subject.

RESIDENT QUESTION 3 - *Has an assessment been done on contracting out maintenance of assets?*

COUNCIL RESPONSE – Contractors are used often to deliver on grant funded works. Rates are regularly checked against using Council staff and are found to be comparable and at time more competitive.

RESIDENT QUESTION 4 - *Pensioners have been mentioned but there are a lot of retirees who are running farms and unable to afford the rate rise. Grants haven't been taken into account.*

COUNCIL RESPONSE – The circumstances of pensioners and ability to pay can be assess under Council’s Hardship Policy. Grants have been factored in - where grants are received it allows Council to divert the money to other areas covered by the SRV. However, grants are not guaranteed and cannot be relied upon over the long term.

RESIDENT QUESTION 5 - *What has Council done to change the way road numbers are taken where types of vehicles are not taken into account?*

COUNCIL RESPONSE – Multiple approaches regarding this matter have been made to Roads and Maritime Services and the NSW Premier and Cabinet. Pressure is being applied prior to the State election. The Mayor and Deputy Mayor encouraged community members to write to the State Member and exert influence. Council’s Executive Manager Infrastructure and Assets is on the Regional Roads REPAIR Technical Sub-Committee Panel which also reviews the way the funding is allocated. The panel is hopeful a new process for the REPAIR program will be in place for the next year allocations. Whilst this won’t make the whole of the Dungog Shire Council Regional Road network viable for funding under this program, it may improve the funding allocation process

RESIDENT QUESTION 6 - *What happens if land values increase over the time?*

COUNCIL RESPONSE – The percentage of rate variation stays the same. The NSW Valuer General demines land valuation, however Council’s rate income in total can only increase by the percentage increase of any Special Rate Variation or rate peg. The land values determine how Council’s total rate income is collected from each property owner.

In July, 2018 Council distributed a SRV survey with the rate notices. Council distributed 4895 rate notices and received 507 completed surveys from residents, a return rate of 10.36%. Of the 507 respondents, 35 (7%) were still undecided, 245 (48%) were in support of the proposed SRV and 227 (45%) were not in support of the proposed SRV. A copy of the survey, raw data and comments from the survey are attached at Attachment ‘10b’. The attached survey results give a good overview of community views on the matter, however, due to the potential for self-selection bias, it is not possible to attribute the same confidence to it as the Micromex telephone survey, which if reproduced would result in the same result 19 times out of 20 with a sampling error of 5.6%. However, it is interesting to note that the percentage results for this survey are similar to Micromex, noting that Micromex found 53% of residents selected the Improvement Plan and 47% of resident selected the rate peg only as their first preference.

The summary of matters raised in the survey are as follows, including Council’s response.

Issue 1 - Reduce Admin staff levels

Council Response - One of Council's cost containment strategies has been the reduction in staffing. As a result, Council has a relatively low cost per capita for the delivery of services when compared to its peer group councils (ref: OLG 2016/2017 Council Comparative Time Series Data). Its \$2,197 total operating cost per capita is 70% of the peer group average and a third of the highest Council's cost per capita. This is indicative that Dungog offers a smaller range of services comparatively and that Council has minimised the cost to ratepayers for its services through years of efficiency savings driven by the reduction in net operating revenues over time. Council may be at risk of under-resourcing its operations.

Dungog Council's EFT staff per head of population is the lowest in Group 10 councils. Additionally Dungog Council's EFT staff numbers are the second lowest in group 10 councils – 66 EFT as shown in OLG 2016/17 time series data.

Council's staff numbers have since been reduced, council's EFT currently sits at 63.5, down from 66 EFT and a vacancy rate of 3.5% has also been built in to council's 2018/19 budget.

Issue 2 - Should have merged

Council Response - Following the IPART assessment, in December 2015 the NSW Premier announced 35 council merger proposals, including the merger of Dungog Shire Council. Dungog Shire Council was subsequently considered as part of three additional local government merger proposals. The final determination of the proposals by the Minister for Local Government was not completed until 2017 and the Premier accepted that Dungog Shire Council should remain in place, continuing to service the community.

It is noted that the resolution of merger proposals was cemented by a resolution of Port Stephens Council in February 2018 which was adopted as follows:-

- 1) Advise Dungog Shire Council that Port Stephens Council has no interest in pursuing a voluntary merger proposal.*
- 2) Authorise the General Manager to enter into negotiations with Dungog Shire Council about potential strategic alliance options.*

Dungog Shire Council was advised of the Port Stephens Council resolution via correspondence from the Mayor, Cr Ryan Palmer, dated 27 February, 2018.

Issue 3 - Apply pressure to State Government for more funding

Council Response – The Mayor and General Manager have embarked on a considerable campaign to lobby the State Government in relation to additional funding. The Mayor on behalf of Council has corresponded with the NSW Premier and met with the NSW Deputy Premier in Dungog, with the support of the Parliamentary Secretary for Planning, the Central Coast and the Hunter, Mr Scot McDonald to seek the following commitments to assist Council to secure its financial future:-

- A one-off bulk roads and bridges funding package for Dungog Shire Council through the Fixing Country Roads Program, to help ensure Council benefits equitably in the same way as comparable local government areas via RMS maintenance of State-classified roads.*

The Mayor and Deputy Mayor also worked closely with the community to undertake a grass roots campaign in the lead up to the NSW State Government election in relation to improved funding for roads in Dungog. Not only was funding addressed, but also the matter of seeking a review in a timely manner by the NSW State Government of the Block Grant Allocation formula, and a request for a formal evaluation by the NSW State Government of the financial, operational and community impacts of Council's proposal to reclassify the Maitland to Dungog Main Road (MR101) to 'State' classification under the Roads Act 1993.

Issue 4 Make Caravan Park, Pools and Sportsground user pays.

Council Response - Council has very limited scope to generate additional revenue sources through fees and charges. Its operations are focussed on traditional general fund council services. User fees and charges are raised where they can be tied to reasonable costs and where the community is willing to pay for service.

Issue 5 – Reduce Councillor numbers

Council Response - Dungog Shire Council has also resolved to reduce its elected members from 9 Councillors to 7 Councillors in 2020 in an effort to reduce governance costs for the organisation. This decision followed on from a constitutional referendum result conducted as part of the 2017 local government election in which the community indicated that they were in favour of this outcome (72% of respondents supported the reduction in councillor numbers).

Issue 6 - Farmers can't afford rate rise

Council Response – Council has considered the impact of the proposed Special Rate Variation on ratepayers of farmland assessments. Council's records confirm the number of rural assessment as 938. Of the 938 rural assessments, 37 pensioner rebates are issued by Council, with the majority of rebates issued to farmland assessments with a land value of less than \$600,000.

Dungog's average Land Value in the Farmland category is \$600,000, however over 51% of all farmland assessments have a land value of less than \$500,000 and 85% have a land value less than \$900,000. The land values are skewed by a small number of properties (10%) in the farmland category with a land value greater than \$1,000,000.

The vast majority of farmland properties are made up of multiple lots of which each generally has its own title. These parcels of land are valued as one holding by the NSW Valuer General for rating purposes, resulting in all the lots listed in that one valuation and Council determining one rateable assessment (ie: each lot does not have it's own valuation).

Generally the lots are adjoining, but there are circumstances where parcels of land in different locations which are used together for the same purpose can also have their valuations combined for rating purposes. Again in this circumstance Council is provided one valuation for all the parcels of land by the NSW Valuer General and have one rateable property. Should the SRV proposal proceed, Council will work with owners of farmland properties held in multiple lots to seek one rateable assessment where possible for the purposes of a more favourable financial outcome for the ratepayer.

For properties to be classified as farmland they must meet certain criteria as stipulated in the NSW Local Government Act, 1993, Section 515 of the Act states the following:-

(1) Land is to be categorised as farmland if it is a parcel of rateable land valued as one assessment and its dominant use is for farming (that is, the business or industry of grazing, animal feedlots, dairying, pig-farming, poultry farming, viticulture, orcharding, bee-keeping, horticulture, vegetable growing, the growing of crops of any kind forestry or aquaculture within the meaning of the Fisheries Management Act 1994), or any combination of those businesses or industries which:

a. has a significant and substantial commercial purpose or character, and

b. is engaged in for the purpose of profit on a continuous or repetitive basis (whether or not a profit is actually made).

(2) Land is not to be categorised as farmland if it is rural residential land.

(3) The regulations may prescribe circumstance in which land is or not to be categorised as farmland.

As can be seen the criteria requires the dominant use of the land to be farming, it must have a significant and substantial commercial purpose and be engaged in for the purpose of profit on a continuous or repetitive basis, whether or not a profit is actually made.

Properties are held in individual names, business names, property trusts and company names for various reasons, one of which is taxation. Properties that meet the above criteria would likely also meet the Australian Tax Office criteria of a Primary Producer and/or business in which annual operating costs such as rates are entitled to be claimed as a tax deduction. Obviously, personal financial circumstances are none of councils business but in our attempts to better understand ratepayers capacity to pay, these are factors that need to be considered. How ratepayers conduct their business or operate their properties is something each landholder would determine for themselves based on their own circumstances, and more importantly the most benefit they or their business would gain for their own financial requirements and from a taxation perspective.

We understand there maybe farmland ratepayers who do not strictly meet the criteria as noted in the legislation above. The legislation does not allow using rating categorisation as a means to provide concessions however we are investigating how Council may provide some flexibility to take account of the different natures of farming industries so that any changes in the nature of the industries are able to be considered.

On two occasions a Ward Councillor introduced a Notice of Motion into an Ordinary Meeting of Council to discuss the potential impact of the proposed Special Rate Variation on farmers. On each of these occasions, members of the public attended the Chamber to observe the Council debate on the proposed Special Rate Variation.

Issue 7 - Make Daracon pay for the roads they use

Council Response - Council resolved to commence Class 4 proceedings in the Land and Environment Court in relation to the operation of Martins Creek Quarry and the validity of the Environment Protection License variation granted in 2007. In October, 2018 Acting Justice

Molesworth handed down a 380 page judgement in the Dungog Shire Council v Hunter Industrial Rental Equipment Pty Ltd and Buttai Gravel matter (subsidiaries of Daracon). The Court made 27 declarations and orders and in most instances the declarations and the orders sought by Dungog Shire Council were granted. The Court stayed the majority of the orders for 3 months to enable Martins Creek Quarry to manage and mitigate the harm to their existing customers and staff and allow them to make alternate arrangements. The three months stay also provided an opportunity for the respondents to have their State Significant Development Application determined. The respondents (Daracon) filed a Notice Of Motion (NOM) with the Land and Environment Court (4th December, 2018) seeking an extension to the stay of orders and also proposing a reduced Interim Environmental Management Plan. The judgement has now gone to Appeal and will be heard in May, 2019.

Issue 8 - Reduce minimum lot size

Council Response - NSW Chief Planner, Gary White, conducted a Visioning Exercise with Councillors and Council senior staff in January, 2019. Part of the exercise addressed the introduction to Local Strategic Planning Statements (LSPS). It is a requirement under the Environmental Planning and Assessment Act (1979) for each NSW Council to prepare an LSPS. Regional Councils such as Dungog must have an LSPS in place by 1 July 2020. According to the Department of Planning and Environment, the LSPS will set out a 20 year vision for land use in the local area and identify the special characteristics which contribute to local identity. It should align with the Community Strategic Plan and will set out how growth and change will be managed in the future. The LSPS should inform our decision-making, including reviews of our Development Control Plan and our Local Environmental Plan. This was a very timely exercise as Dungog Shire Council are currently developing the Rural Lands Strategy, which will help identify and quarantine prime agricultural land. Council can then look at rezoning the more marginal land for other purposes, such as residential and commercial uses and review minimum lot sizes. An updated LEP will follow this process. Council will be engaging with the community on the review of each of these documents.

Issue 9 Pensioners won't be able to afford rise

Council Response - In considering a proposed Special Rate Variation Council has reviewed its policy framework for the assessment of applications from ratepayers who are experiencing genuine financial hardship with the payment of Council rates and charges. Council acknowledges that there are cases of genuine financial hardship requiring respect and compassion in special circumstances. A circumstance that could be considered special is the potential adverse impact that a Special Rate Variation may have on some community members.

The NSW Office of Local Government established guidelines for council's who are intending to apply for a Special Rate Variation for assessment by the Independent Pricing and Regulatory Tribunal (IPART) NSW. In particular page 69 of the Independent Pricing and Regulatory Manual requires that councils as part of their application process should include an assessment of the community's capacity and willingness to pay the proposed increased rates.

In this regard, Dungog Shire Council's adopted Hardship Policy (2015) has been reviewed and amended with the assistance of the NSW Office for Local Government and the Hunter Joint Organisation.

Council also engaged Morrison Low to undertake an independent investigation of the Dungog Shire community's capacity and willingness to pay for the proposed Special Rate Variation. This report showed that the Dungog community does have the capacity and willingness to pay for a Special Rate Variation and is in a comparatively better position to do so than other Group 10 Councils who have successfully applied for a Special Rate Variation.

Data from the 2016 Census Index of Relative Social-economic Disadvantage (IRSD) shows that between 2011 and 2016 only Dungog's Local Government Area witnessed a significant boost in ranking. This same study revealed that the Dungog Local Government Area is doing better than 70% of Australian local government areas in relation to disadvantage.

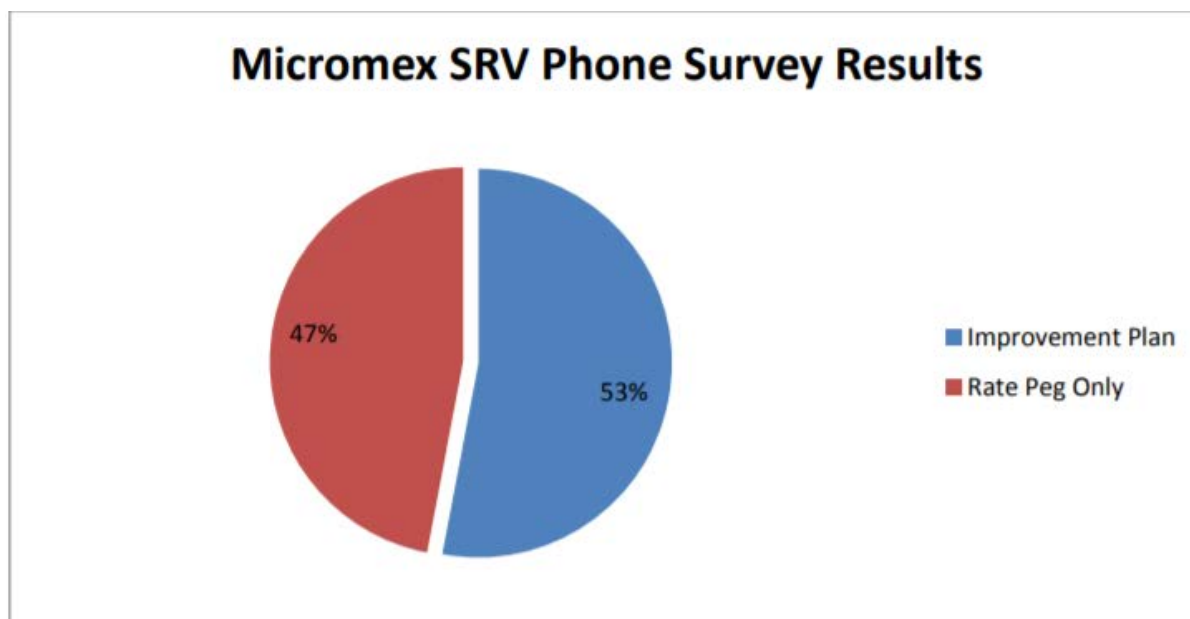
Issue 10 - Charge heavy vehicles a tax for using roads

Council Response – In July 2017 Council adopted a Section 94 Contributions Plan for Heavy Haulage generated by Extractive Industry Development. The matter of heavy vehicle impacts on roads has been raised with Roads and Maritime Services and The Hon Melinda Pavey MP, NSW Minister for Roads, Maritime and Freight.

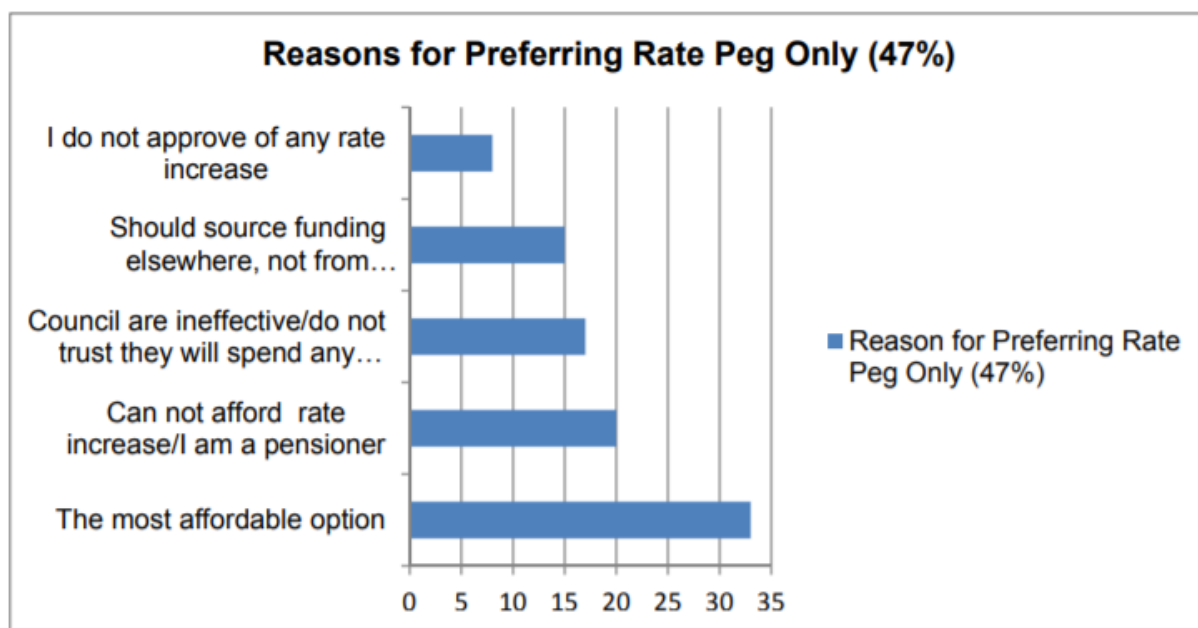
Issue 11 Spend money wisely.

Council Response – Council's Integrated Planning and Reporting (IP&R) documentation has clearly articulated the need, purpose and justification for a Special Rate Variation and prescribed how the additional money generated by this proposal will be utilised by Council.

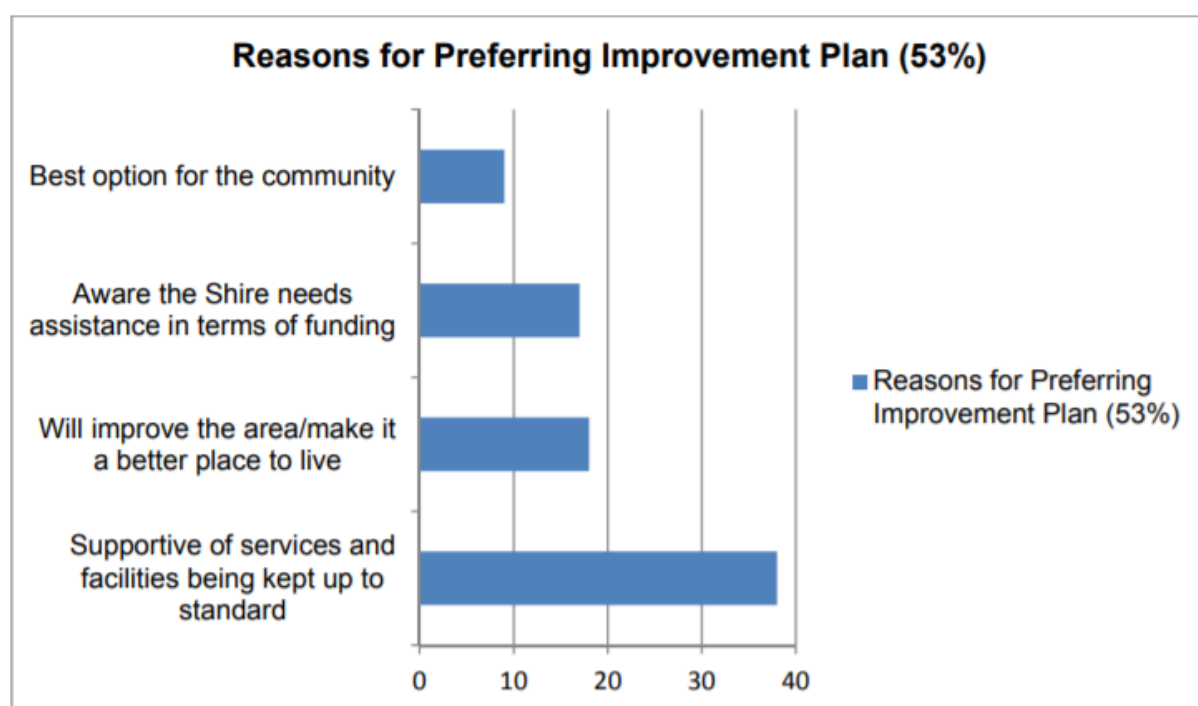
PIE CHART 2: RESIDENT PREFERENCE - IMPROVEMENT PLAN & RATE PEG ONLY



BAR CHART 9: REASONS FOR PREFERRING RATE PEG ONLY



BAR CHART 10: REASONS FOR PREFERRING THE IMPROVEMENT PLAN



Between the 12th – 15th November, 2018 Council contracted Micromex Research to conduct a randomised telephone survey regarding the SRV. Micromex conducted 302 interviews that provided a sample size with a maximum sampling error of plus or minus 5.6% at 95% confidence. 277 of the 302 respondents were selected by means of a computer based random selection process using the electronic White Pages and Sample Pages. In addition, 25 respondents were recruited face-to-face at a number of areas around the Dungog Shire Council area including the Dungog Show, Clarence Town IGA, Paterson IGA and Dungog

IGA/Bakery/Coffee Bean Café. The results of the Micromex Research are attached at Attachment '10a'.

Micromex Research results revealed:-

- 60% of residents were aware that Council was exploring community sentiment towards a SRV. Residents aged 18-34 were significantly less likely to be aware, while those who were aged 50-64 and those that are ratepayers were significantly more likely to be aware. Nearly half (47%) of residents who were aware of the SRV were made aware by 'mail out' and 31% by newspaper advertisement.
- 47% of respondents indicated that rate peg only was their first preference
- 53% of respondents indicated that the Improvement Plan was their first preference.

Over the 2018 calendar year, Council received 7 pieces of written correspondence from community members. These letters are attached at Attachment 24. 4 of the letter writers were in support of the proposed Special Rate Variation (noting that not all were in agreement with the proposed tapered amount) and 3 were against.

On knowing that Council was preparing an application to IPART for a Special Rate Variation, further members of the community offered to pen letters of support, these included 1) Jenny Lewis (President of the Dungog and District Chamber of Commerce, 2) Brian McGuigan (resident and renowned wine maker; 3) The Dungog ALP party 4) Tim Norris (Business Owner Restart IT) . Copy of these letters are attached at Attachment 25.

On two occasions a Ward Councillor introduced a Notice of Motion into an Ordinary Meeting of Council regarding the affordability of the proposed Special Rate Variation especially for farmers. On each of these occasions, members of the public attended the Chamber to observe the Council debate on the proposed Special Rate Variation.

5 Assessment criterion 3: Impact on ratepayers

Criterion 3 in the Guidelines is:

The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Program and Long Term Financial Plan should:

- *clearly show the impact of any rises upon the community*
- *include the council's consideration of the community's capacity and willingness to pay rates and*
- *establish that the proposed rate increases are affordable having regard to the community's capacity to pay.*

The impact of the council's proposed special variation on ratepayers must be reasonable. To do this, we take into account current rate levels, the existing ratepayer base and the purpose of the proposed special variation. We also review how the council has assessed whether the proposed rate rises are affordable, having regard to the community's capacity and willingness to pay.

5.1 Impact on rates

Much of the quantitative information we need on the impact of the proposed special variation on rate levels will already be contained in Worksheet 5a and 5b of Part A of the application.

To assist us further, the application should set out the rating structure under the proposed special variation, and how this may differ from the current rating structure, or that which would apply if the special variation is not approved.

We recognise that a council may choose to apply an increase differentially among categories of ratepayers. If so, you should explain the rationale for applying the increase differentially among different categories and/or subcategories of ratepayers, and how this was communicated to the community. This will be relevant to our assessment of the reasonableness of the impact on ratepayers.

Councils should also indicate the impact of any other anticipated changes (eg, receipt of new valuations) in the rating structure.

The proposed special rate variation will impact on all ratepayers with a cumulative increase of 97.8% over a 7 year period, including an assumed cumulative rate peg increase of 18.9% over 7 years.

Council was mindful in establishing the quantum of a proposed special variation to generate the financial capacity to commence addressing the infrastructure issues, to deliver current service levels into the future while creating an operating result that would build its financial capacity/sustainability.

The estimated additional rating income from the proposed special variation is detailed in the following table.

Additional income from special rates variation

Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26
\$711,000	\$1,553,000	\$2,161,000	\$2,841,000	\$3,601,000	\$4,044,000	\$4,520,000

The following tables demonstrate the proposed effect of the permanent, multi-year rates increase on the average rate in aggregate dollar terms for each rates category. This extends over the whole seven year period as the average rate in each category increase by a tapering percentage increase in each of these years.

To provide further clarity, the following table demonstrates the proposed effect of the permanent, multi-year rates increase on each of council's rates categories and sub categories using the average land value in each category. Similarly to above this extends over the whole seven year period as rates in each category increase by a tapering percentage increase in each of these years. This table also highlights the low base Council is coming from compared to neighbouring and other Group 10 Councils and shows the structure that would apply if the Special Variation is not approved.

Rates Category	Average Land Value	Base Year Total	Projected Estimate of Average Rate Amounts							Cumulative Increase
			Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	
<u>Residential</u>	\$275,000	\$1,075	\$1,102	\$1,129	\$1,157	\$1,186	\$1,216	\$1,246	\$1,277	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$275,000	\$1,075	\$1,236	\$1,421	\$1,563	\$1,720	\$1,892	\$2,005	\$2,125	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$161	\$347	\$489	\$645	\$817	\$930	\$1,051	
<u>Residential Dunggog</u>	\$104,000	\$726	\$744	\$762	\$782	\$801	\$821	\$842	\$863	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$104,000	\$726	\$835	\$960	\$1,056	\$1,161	\$1,277	\$1,354	\$1,435	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$109	\$234	\$330	\$436	\$552	\$628	\$710	
<u>Residential Clarence Town</u>	\$125,000	\$707	\$724	\$743	\$761	\$780	\$800	\$820	\$840	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$125,000	\$707	\$813	\$935	\$1,028	\$1,131	\$1,244	\$1,319	\$1,398	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$106	\$228	\$321	\$424	\$537	\$612	\$691	
<u>Residential Villiage</u>	\$125,000	\$595	\$610	\$626	\$641	\$657	\$674	\$690	\$708	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$125,000	\$595	\$685	\$787	\$866	\$953	\$1,048	\$1,111	\$1,178	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$89	\$192	\$271	\$357	\$453	\$516	\$582	

Rates Category	Average Land Value	Base Year Total	Projected Estimate of Average Rate Amounts							Cumulative Increase
			Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	
<u>Business</u>	\$114,000	\$956	\$980	\$1,004	\$1,029	\$1,055	\$1,081	\$1,108	\$1,136	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$114,000	\$956	\$1,099	\$1,264	\$1,390	\$1,529	\$1,682	\$1,783	\$1,890	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$143	\$308	\$435	\$574	\$727	\$828	\$935	
<u>Business Clarence Town</u>	\$95,000	\$790	\$810	\$830	\$851	\$872	\$894	\$917	\$940	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$95,000	\$790	\$909	\$1,045	\$1,150	\$1,265	\$1,391	\$1,475	\$1,563	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$119	\$255	\$359	\$474	\$601	\$684	\$773	
<u>Business Dungog</u>	\$109,000	\$932	\$955	\$979	\$1,004	\$1,029	\$1,054	\$1,081	\$1,108	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$109,000	\$932	\$1,072	\$1,233	\$1,356	\$1,491	\$1,641	\$1,739	\$1,843	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$140	\$301	\$424	\$559	\$709	\$807	\$911	
<u>Business Villiage</u>	\$109,000	\$717	\$735	\$753	\$772	\$791	\$811	\$831	\$852	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$109,000	\$717	\$824	\$948	\$1,043	\$1,147	\$1,262	\$1,337	\$1,417	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$108	\$231	\$326	\$430	\$545	\$621	\$701	
<u>Farmland</u>	\$600,000	\$2,236	\$2,292	\$2,349	\$2,408	\$2,468	\$2,530	\$2,593	\$2,658	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	\$600,000	\$2,236	\$2,571	\$2,957	\$3,253	\$3,578	\$3,936	\$4,172	\$4,422	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			\$335	\$721	\$1,017	\$1,342	\$1,700	\$1,936	\$2,186	

5.1.1 Minimum Rates

The proposed special variation may affect ordinary rates, special rates and/or minimum rates.

For minimum rate increases, a council must seek approval via an instrument when it:

- ▼ proposes to increase its minimum rates above the statutory limit for the first time with or without increasing its general income above the rate peg limit;

- ▼ it is already imposing an ordinary minimum rate above the statutory limit and it seeks to increase that rate by more than the rate peg or the percentage allowed by a special variation; or
- ▼ is seeking to increase the minimum amount of its **special rates** above the statutory limit.

Under these scenarios, where the council is also proposing a special variation in the same rating year, it may submit a combined special variation and minimum rate application.

Complete this section if the council is seeking approval to increase the minimum amount of an ordinary rate or special rate via an instrument as outlined above.

Does the council have an ordinary rate subject to a minimum amount? Yes ☐ No ☒

Does the council propose to increase the minimum amount of its ordinary rates above the statutory limit for the first time? Yes ☐ No ☐

Which rates will the increases apply to? Residential ☐ Business ☐ Farmland ☐

Does the council propose to increase the minimum amount of its ordinary rate/s by:

- The rate peg percentage ☐
- The special variation percentage ☐
- A different amount ☐ indicate this amount (%) _____ (\$)

What will the minimum amount of the ordinary rate/s be after the proposed increase? \$ _____

If the increase applies to a special rate, complete this section

What will the minimum amount of the special rate be after the proposed increase? \$ _____

IPART will assess applications for minimum rates above the statutory limit against the following set of criteria (in addition to any other matters which IPART considers relevant):

- ▼ the rationale for increasing minimum rates above the statutory amount,
- ▼ the impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category, and
- ▼ the consultation the council has undertaken to obtain the community's views on the proposal.

See the separate **Minimum Rate Application Form Part B** for more detail on how IPART will assess applications against each of these criteria. It is the council's responsibility to provide enough evidence in its application to justify the increase. Where applicable, councils should make reference to the relevant parts of its Integrated Planning and Reporting documentation to demonstrate how the criteria have been met.

The council must explain how the proposed special variation will apply to the minimum amount of any ordinary and special rate, and any change to the proportion of ratepayers on the minimum rate for all relevant rating categories that will occur as a result (refer to Part A of the application as necessary).

You should also explain the types of ratepayers or properties currently paying minimum rates, and the rationale for the application of the special variation to minimum rate levels.

NOT APPLICABLE

It is not necessary for a council to apply to IPART for an increase in minimum rates when the council:

- ▼ is seeking to increase its ordinary minimum rates to any level at or below the statutory limit (even if the increase is by more than the rate peg); or
- ▼ has previously had an increase to its ordinary minimum rate above the statutory limit approved by IPART, and is seeking further increases by the rate peg or the percentage applied for in a special variation application (see section 548(4) and (5) of the Act).

Complete this section for information only if the proposed increase to the minimum amount is not above the statutory limit or if above the statutory limit, the council has previously been granted approval for an increase above the statutory limit (see section 548(4) and (5) of the Act).

Does the council have ordinary rates subject to a minimum amount? Yes ☐ No ☐

Which ordinary rate will the proposed increase apply to? Residential ☐ Business ☐ Farmland ☐

Does the council propose to increase the minimum amount of its ordinary rate/s by:

- The rate peg percentage ☐
- The special variation percentage ☐
- A different amount ☐ Indicate this amount (%) _____ (\$)

What will the minimum amount of the ordinary rate/s be after the proposed increase? \$ _____

Where the minimum rate increase is proposed without a corresponding variation to ordinary rates, a separate Minimum Rate application is required. See the separate Minimum Rate Application Forms Part A and Part B for 2019-20.

5.2 Consideration of affordability and the community's capacity and willingness to pay

The council is required to provide evidence through its IP&R processes, and in its application, of how it assessed the community's capacity and willingness to pay the proposed rate increases. This is to include an explanation of how the council established that the proposed rate rises are affordable for the community.

Evidence about capacity to pay could include a discussion of such indicators as SEIFA rankings, land values, average rates, disposable incomes, the outstanding rates ratio and rates as a proportion of household/business/farmland income and expenditure, and how these measures relate to those in comparable or neighbouring council areas.

As many of these measures are highly aggregated, it may also be useful to discuss other factors that could better explain the impact on ratepayers affected by the proposed rate increases, particularly if the impact varies across different categories of ratepayers.

We may also consider how the council's hardship policy (see Section 5.3 below) might reduce the impact on socio-economically disadvantaged ratepayers.

Dungog Shire Council currently has the lowest average rate of its neighbouring councils. Compared with all Group 10 councils, Dungog Shire's average rate of \$1,098 is less than 82% of the average and 46% of the highest council's average rate. Compared with Group 10 councils, Dungog has a higher residential rate than average, however it is less than half of the highest council's average residential rate.

Average rate comparison

Rating category	Dungog	Port Stephens	Upper Hunter	Singleton	Maitland	Mid-Coast
Residential	\$831	\$969	\$739	\$829	\$1,224	\$1,128
Business	\$880	\$4,047	\$898	\$6,713	\$6,552	\$2,794
Farmland	\$2,132	\$1,703	\$3,414	\$1,990	\$3,056	\$1,846
All assessments	\$1,098	\$1,145	\$1,331	\$1,568	\$1,585	\$1,922

This table shows the average council rates for the year ended 30 June 2017. Upper Hunter and Mid-Coast Councils have subsequently applied for Special Rates Variations for cumulative rates increases of 20.1% and 21-27%.

Mid-Coast Council's application has been approved, and therefore it is expected that their average rate will increase over the next four years. Upper Hunter Council's application was not approved, however Council may re-apply in a future year.

In respect of the ability of the community to pay, some of the key indicators for Dungog Shire Council are as follows.

Income, and in particular the collective effect of household income, is a major factor when considering wealth and is a strong comparative tool to assess Dungog Shire's capacity to pay for a SRV. The table below shows the median household income for each Group 10 Council, and to assist with comparability, past successful SRV applicants have been highlighted in blue and Dungog Shire has been highlighted in green. This table shows that Dungog Shire has the 4th highest weekly household income amongst all Group 10 Councils.

Table 6 Group 10 Councils Weekly Household Income

Councils	Median Household Income (\$/week)
Cobar	\$ 1,495.00
Oberon	\$ 1,239.00
Blayney	\$ 1,227.00
Dungog Shire	\$ 1,226.00
Upper Lachlan	\$ 1,161.00
Junee	\$ 1,139.00
Bland	\$ 1,100.00
Edward River	\$ 1,080.00
Narromine	\$ 1,078.00
Forbes	\$ 1,069.00
Uralla	\$ 1,058.00
Wentworth	\$ 1,052.00
Lachlan	\$ 1,034.00
Temora	\$ 1,033.00
Liverpool Plains	\$ 1,032.00
Narrandera	\$ 1,030.00
Berrigan	\$ 967.00
Gwydir	\$ 910.00
Warrumbungle	\$ 878.00
Glen Innes Severn	\$ 838.00
Kyogle	\$ 832.00
Walgett	\$ 806.00
Tenterfield	\$ 767.00
Average	\$ 1,045.70
Successful SRV Average	\$ 991.09

The Socio-Economic Index for Areas (SEIFA) is also an economic tool developed by the ABS to rank areas in Australia according to their relative socio-economic advantage and disadvantage. The primary variables used in determining the index include; income, education, employment, occupation, housing and other miscellaneous factors. It serves as a strong comparative tool to determine the Dungog Shire community's relative wealth and capacity to pay. Dungog Shire ranks 2nd amongst group 10 councils and 87th in the state, the ABS SEIFA rankings show that similar to the results of the household income Dungog Shire, relative to the other Group 10 Councils and neighbouring Hunter Councils, has greater levels of wealth and socio-economic advantage within the community and as such has a greater capacity to pay for an increase in rates.

The table below shows Socio-economic indicators for the Hunter Region taken from the Office of Local Government 2016-17 Council comparative time series data.

	Dungog	Port Stephens	Upper Hunter	Singleton	Maitland	Mid-Coast
Socio-economic index rating 2016	83	70	67	85	75	20
Unemployment rate	3.1%	4.3%	2.8%	3.4%	4.0%	5.4%
% Pensioner residential rate	22.1%	18.9%	22%	11.9%	17.1%	Not reported
Average Taxable Income (2015)	\$53,793	\$52,253	\$56,449	\$72,888	\$59,167	\$43,370

Another key determinate of capacity and willingness to pay is the level of outstanding rates and charges. Council's outstanding rates and charges ratio has remained below the accepted 10% benchmark for rural councils for over 10 years.

These figures reflect that on a comparative basis, Dungog Shire has a strong economy through relatively high personal income levels and low unemployment rates. It also has a high level of pensioner ratepayers and Council has been very mindful of the community's ability to afford a relatively large rate variation from a comparatively low base.

Council's outstanding rates and charges ratio has, over the last three years been as follows:

2017-18 = 6.13%***

2016-17 = 6.03%***

2015-16 = 3.59%

**** Council's Rates Clerk position was vacant for over 12 months (across 2016-2017 and 2017-2018) which contributes to the higher result.*

The accepted benchmark for rural councils is 10%. Whilst there has been a one-off increase in the 2016-18 years, this ratio demonstrates that, generally, Council is able to recover its rates and annual charges within the year they are rated. This demonstrates ratepayers' capacity to pay and provides an indication that ratepayers have historically been able to pay rates and annual charges consistently.

Due to the size and sensitivity of the proposed Special Rate Variation, Council commissioned Morrison Low to undertake further analysis of the capacity and willingness to pay. The summary of findings is on page 16 Assessment of Capacity to Pay – Attachment 26.

These findings demonstrate that overall, the Dungog Shire community enjoys a relatively higher degree of wealth than the other group 10 councils. Despite this level of wealth and financial capacity, relative to the other councils, Dungog Shire's rates are comparably lower, which contributes to Council's financial unsustainability. It is apparent that additional rates income from all rating categories is largely affordable.

5.3 Addressing hardship

In addition to the statutory requirement for pensioner rebates, most councils have a policy, formal or otherwise to address issues of hardship.

Does the council have a Hardship Policy?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If Yes, is an interest charge applied to late rate payments?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Does the council propose to introduce any measures to reduce the impact of the proposed special variation on specific groups in the community?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

You should attach a copy of the Hardship Policy and explain below who the potential beneficiaries are and how they are assisted.

Please provide details of any other measures addressing hardship to be adopted, or alternatively, explain why no measures are proposed.

The council is also to indicate whether the hardship policy or other measures are referenced in the council's IP&R documents (with relevant page reference or extract provided).

In considering a proposed Special Rate Variation Council has reviewed its policy framework for the assessment of applications from ratepayers who are experiencing genuine financial hardship with the payment of Council rates and charges. Council acknowledges that there are cases of genuine financial hardship requiring respect and compassion in special circumstances. A circumstance that could be considered special is the potential adverse impact that a Special Rate Variation may have on some community members.

The NSW Office of Local Government established guidelines for council's who are intending to apply for a Special Rate Variation for assessment by the Independent Pricing and Regulatory Tribunal (IPART) NSW. In particular page 69 of the Independent Pricing and Regulatory Manual requires that councils as part of their application process should include an assessment of the community's capacity and willingness to pay the proposed increased rates.

In this regard, Dungog Shire Council's adopted Hardship Policy (2015) as referenced in Council's IP& R documents has been reviewed and amended with the assistance of the NSW Office for Local Government and the Hunter Joint Organisation.

Council's adopted Financial Hardship Policy (Policy C2:11) which applies to all ratepayers in the Dungog Local Government Area who are experiencing genuine financial hardship in paying their rates and charges provides for:

- ☐ Periodical payment arrangements for overdue rates and charges (Section 564):
- ☐ Writing off or reducing interest accrued on rates and charges (Section 564 & 567);
- ☐ Waiving, reducing or deferring the payment of the increase in the amount of rate payable because of hardship resulting from general revaluation of land in the Local Government Area (Section 601);
- ☐ Abandoning, waiving, or reducing rates, charges and interest of eligible pensioners (Section 575 & 582)
- ☐ Waiving, or reducing, Council fees when the inability to pay is due to hardship (Section 610E)

Further, Council has also considered the impact of the proposed Special Rate Variation on ratepayers of farmland assessments. Council's records confirm the number of rural assessments as 938. Of the 938 rural assessments, 37 pensioner rebates are issued by Council, with the majority of rebates issued to farmland assessments with a land value of less than \$600,000.

Dungog's average Land Value in the Farmland category is \$600,000, however over 51% of all farmland assessments have a land value of less than \$500,000. The land values are

skewed by a small number of properties (10%) in the farmland category with a land value greater than \$1,000,000. This is illustrated in the table below.

Land Value in Thousands	No. of assessments in this Range	No. of Properties in this range as a % of Total Properties
<\$250	104	11.1
\$250<\$500	374	39.9
\$500<\$750	218	23.2
\$750<\$1M	147	15.7
\$1M<\$1.5M	63	6.7
\$1.5M<\$2M	19	2.0
Equal to or > \$2M	13	1.4
Total Farmland Assessments	938	100.0

When compared to neighbouring Councils it is obvious that Dungog Shire Council has a high percentage of income related to land categorised as Farmland (37.41%). This figure is similar to Mid Coast Council (38.89%) and just under the figure for the Upper Hunter (52.68%) all three Councils being largely rural based. However the table below also demonstrates how the Mid Coast can defray costs by accessing mining revenues and it is also evident that Port Stephens and Maitland Councils can defray costs for farming land as a result of income derived from residential and business rates. This type of cross-subsidisation is not reasonable in the Dungog Shire given the community profile (ie: low numbers of business and similar proportions for farmland and residential).

LGA	Category	% of Land Value	% of Income
Dungog	Farmland	42.86%	37.41%
	Residential	54.08%	56.73%
	Business	3.06%	5.86%
Port Stephens	Farmland	2.70%	2%
	Residential	89.50%	78.70%
	Business	7.80%	19.30%
Maitland	Farmland	6.79%	3.99%
	Residential	83.55%	72.36%
	Business	9.62%	22.94%
	Mining	0.04%	0.71%
Upper Hunter	Farmland	68.98%	52.68%
	Residential	27.05%	39.87%
	Business	0.01%	0.85%
	Mining	3.97%	6.60%
Midcoast- former Gloucester	Farmland	54.38%	38.89%
	Residential	39.75%	48.92%
	Business	4.81%	8.18%
	Mining	1.06%	4.01%

The vast majority of farmland properties are made up of multiple lots of which each generally has its own title. These parcels of land are valued as one holding by the NSW Valuer General for rating purposes, resulting in all the lots listed in that one valuation and Council determining one rateable assessment (ie: each lot does not have it's own valuation).

Generally the lots are adjoining, but there are circumstances where parcels of land in different locations which are used together for the same purpose can also have their valuations combined for rating purposes. Again in this circumstance Council is provided one valuation for all the parcels of land by the NSW Valuer General and have one rateable property. Should the SRV proposal proceed, Council will work with owners of farmland properties held in multiple lots to seek one rateable assessment where possible for the purposes of a more favourable financial outcome for the ratepayer.

For properties to be classified as farmland they must meet certain criteria as stipulated in the NSW Local Government Act, 1993, Section 515 of the Act states the following:-

(1) Land is to be categorised as farmland if it is a parcel of rateable land valued as one assessment and its dominant use is for farming (that is, the business or industry of grazing, animal feedlots, dairying, pig-farming, poultry farming, viticulture, orcharding, bee-keeping, horticulture, vegetable growing, the growing of crops of any kind forestry or aquaculture within the meaning of the Fisheries Management Act 1994), or any combination of those businesses or industries which:

a. has a significant and substantial commercial purpose or character, and

b. is engaged in for the purpose of profit on a continuous or repetitive basis (whether or not a profit is actually made).

(2) Land is not to be categorised as farmland if it is rural residential land.

(3) The regulations may prescribe circumstance in which land is or not to be categorised as farmland.

As can be seen the criteria requires the dominant use of the land to be farming, it must have a significant and substantial commercial purpose and be engaged in for the purpose of profit on a continuous or repetitive basis, whether or not a profit is actually made.

Properties are held in individual names, business names, property trusts and company names for various reasons, one of which is taxation. Properties that meet the above criteria would likely also meet the Australian Tax Office criteria of a Primary Producer and/or business in which annual operating costs such as rates are entitled to be claimed as a tax deduction. Obviously, personal financial circumstances are none of councils business but in our attempts to better understand ratepayers capacity to pay, these are factors that need to be considered. How ratepayers conduct their business or operate their properties is something each landholder would determine for themselves based on their own circumstances, and more importantly the most benefit they or their business would gain for their own financial requirements and from a taxation perspective.

We understand there maybe farmland ratepayers who do not strictly meet the criteria as noted in the legislation above. The legislation does not allow using rating categorisation as a means to provide concessions however we are investigating how Council may provide some flexibility to take account of the different natures of farming industries so that any changes in the nature of the industries are able to be considered.

The table below illustrates ratepayer type. This table provides a break up of current farmland assessments by entity (owner) as provided by the NSW Land Registry Services

Ratepayer Type	Assess Count	Entity	Individuals	Estate	Total Ratepayers
Entity	152	152			152
Entity & Individuals	2	2	3		5
Estate & Individuals	15	0	3	15	18
Individual					
1 owner	403	0	403		403
2 owners	323		646		646
3 owners	27		81		81
4 owners	11		44		44
5 or more	5		40		40
TOTAL ASSESSMENTS	938	154	1220	15	1389

In further considering the impact on ratepayers due to the proposed Special Rate Variation, Council commissioned consultancy firm Morrison Low to undertake an assessment of the community's capacity to pay and relative affordability of the increase in rates as a result of the proposed Special Rate Variation. See Attachment 26.

The Morrison Low report revealed that Dungog Shire is a growing region that although is primarily agricultural, has seen a shift towards higher skilled and higher paid occupations in its secondary industries. This trend has been reflected in the region's average household income and overall socio-economic standing as seen by the second highest SEIFA score

amongst Group 10 Councils. Further comparisons with the other 'Large Rural' Councils show that Dungog Shire has:

- ☐ The 4th highest household income
- ☐ The 9th lowest level of outstanding rates
- ☐ The highest proportion of private health care ownership within the Labour force

These findings demonstrate that overall, the Dungog community enjoys a relatively higher degree of wealth than the other Group 10 Councils. Despite this level of wealth and financial capacity, relative to the other Councils, Dungog's rates are comparably lower, which contributes to Council's financial unsustainability. The Morrison and Low research formed the view that additional rates income from all rating categories is largely affordable.

Morrison Low have also ascertained that an increase in the community's rates is unlikely to occur in conjunction with any other foreseeable major increases in their cost of living. There are low levels of mortgage stress in the community and the cost of utilities are stable or are stabilising over the next two years. There is also a level of evidence, the extent of outstanding rates and private health cover that indicate the majority of ratepayers are willing to pay for a range of services that meet the needs of the household.

The Morrison Low research findings show that Dungog Shire's community has the capacity and willingness to pay for the proposed SRV and is in a comparatively better position to do so than previous successful Group 10 SRV applicants.

6 Assessment criterion 4: Public exhibition of relevant IP&R documents

Criterion 4 in the Guidelines is:

The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.

Briefly outline the significant IP&R processes the council has undertaken to reach the decision to apply for a special variation. Include the details of and dates for key document revisions, public exhibition period(s) and the date(s) that the council adopted the relevant IP&R documents.²

You should also include extracts from council minutes as evidence that the documents were adopted.

The council is reminded that the Community Strategic Plan and Delivery Program (if amended), require public exhibition for at least 28 days prior to adoption. Amendments to the Long Term Financial Plan and Asset Management Plan do not require public exhibition.³ However, it would be expected that the Long Term Financial Plan would be posted, in a prominent location, on the council's website.

CRITICAL COUNCIL RESOLUTIONS

In October, 2017 the following Mayoral Minute was carried:-

A MOTION was moved by Cr Norman that Council investigate a special rate variation to address council's infrastructure backlog with the view to pursue a special rate variation for the 2018/2019 financial year.

On being put the motion was carried.

In November, 2017 Council resolved the following:

- 1. Council continue to investigate a special rate variation to address council's budget deficit and infrastructure backlog with the view to pursue a special rate variation for the 2019/2020 financial year;*
- 2. Council conduct extensive and varied community engagement to determine the communities service level requirements and corresponding special variation increase;*
- 3. Any proposed special rate variation is incorporated into Council's relevant IP&R documents for approval, exhibition and adoption prior to an application to IPART (Minute No. 37583)*

² The relevant IP&R documents are the Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable, the Asset Management Plan.

³ Office of Local Government (then Division of Local Government), *Integrated Planning and Reporting Manual for local government in NSW*, March 2013, pp 5-6.

In December, 2018 Council resolved the following

- a) *Resolve to proceed with a 508A (permanent) Special Rate Variation option in order to address Dungog Shire Council's financial sustainability and maintain essential community infrastructure including Council's roads network, timber bridges and community buildings;*
- b) *Adopt a tapered Special Rate Variation option over a 7 year period to commence in July 2019 as follows:-*
 - Years 1 & 2 = 15% (2.5% rate cap plus 12.5% SRV)*
 - Years 3,4 & 5 = 10% (2.5% rate cap plus 7.5% SRV)*
 - Years 6 & 7 = 6% (2.5% rate cap plus 3.5% SRV);*
- c) *Make application for a 508A (permanent) Special Rate Variation to the NSW Independent Pricing and Regulatory Tribunal by 11 February, 2019.*

Moved Cr D Rayward, Seconded Cr G Riley

Carried.

Crs Wall, Low and Connors requested their negative votes be recorded.
(See Attachment 27)

INTEGRATED PLANNING & REPORTING (IP&R) DOCUMENTS

Council has incorporated into its approved IP&R documents, namely the Community Strategic Plan 2030, Operational Plan 2018-2019, Delivery Program 2018-2022 and Resourcing Strategy 2018-2022 strategies and actions that identify the need for a potential Special Variation and actions to prepare and submit a Special Variation application. Council's IP&R documents have been publically exhibited for the purpose of receiving community feedback and adopted by Council.

COMMUNITY STRATEGIC PLAN 2030

The community engagement strategy within the CSP - Attachment 1 on pages 24-27, sets out the community engagement activities that were undertaken to ensure this plan has a strong evidence base and is truly representative of community views. It identifies the community priorities over the next 10 years, and the strategies to reach the community objectives. It explains the extent and impact of the current infrastructure backlog, and the associated challenge to deliver on the community's priority for accessible and well-maintained infrastructure. It identifies a number of funding strategies to achieve the community objectives, including identifying the need for a Special Rates Variation.

Council Adoption Dates

Council's first Community Strategic Plan was adopted in June 2012.

Extra Ordinary Meeting May 2018 – Amended Community Strategic Plan 2030 placed on public exhibition

Extra Ordinary Meeting June 2018 – Community Strategic Plan 2030 adopted by Council

Ordinary Meeting November, 2018 – Amended Community Strategic Plan 2030 placed on public exhibition

Ordinary Meeting December, 2018 – Amended Community Strategic Plan 2030 adopted by Council

OPERATIONAL PLAN 2018-2019

The Operational Plan 2018-2019 focusses on outputs as this Plan involves multiple activities over the course of the year, many of which will coalesce over the next four (4) years to achieve Council's broader objectives as identified in the Delivery Program 2018-2022. To assist with the flow of the documents a colour based system has been used to categorise the seven (7) themes. There is also a clear relationship between the seven (7) themes in the Operational Plan 2018-2019 and the budget documentation contained in the Plan.

The Operational Plan 2018-2019 indicated that the financial year would continue to challenge Dungog Shire Council and noted that the Council had committed to a process of discussion with the community to determine service levels, funding priorities and planning for a sustainable future as a stand alone Council. The Plan highlighted that NSW Treasury Corporation have observed that Dungog Shire Council's long term sustainability is dependent on Council being able to increase revenues and that one option is to investigate the possibility of applying for a Special Rate Variation. It was noted in the Plan that Dungog Shire Council had resolved to continue to investigate a Special Rate Variation for the 2019-2020 financial year and that extensive community engagement would form part of the investigative process.

Council Adoption Dates

Extra Ordinary Meeting May, 2018 – draft Operational Plan 2018-2019 placed on public exhibition

Extra Ordinary Meeting June, 2018 – Operational Plan 2018-2019 adopted by Council

DELIVERY PROGRAM 2018-2022

The Delivery Program 2018-2022 provides an overview of Council's activities over the elected Council term, linking each activity to the strategies and objectives of the Community Strategic Plan.

As detailed in Section 2 4.1 and 4.2 of this application, Council undertook a comprehensive community consultation and engagement strategy for the proposed Special Rate Variation. The outcomes were included in the amended Community Strategic Plan, Delivery Program and Resourcing Strategy.

The amended Delivery Program describes the strategies, activities and actions to be undertaken to engage with the community and apply for a Special Rate Variation, to fund community infrastructure maintenance and renewal, and to improve Council's financial sustainability. The specific actions relating to the Special Rate Variation application process are included in the IP&R documents under three Key Themes and three separate strategies:

- Council Programs 1.1 and 1.2 under the Recreation and Open Space Theme
- Council Programs 10.1 and 10.2 under the Public Infrastructure and Services Theme
- Council Program 5.7 under the Governance and Finance Theme.

The 2018-19 Operational Plan, supports the Delivery Program, providing additional detail on the Council actions to be undertaken in the 2018-19 year.

The Delivery Program 2018-2022 was further amended with a minor change to bring the document into alignment with Council's Resourcing Strategy 2018-2022, which had the following information contained within:-

"The cumulative increase in rates is 97.8% over 7 years, including the cumulative increase of 18.9% from the rate peg increase".

Council's Delivery Program 2018-2022, which was publically exhibited with Council's Resourcing Strategy 2018-2022 had the following information contained within: Year 1 & 2 – 15% (2.5% rate cap plus 12.5% SRV)

Years 3, 4 & 5 – 10% (2.5% rate cap plus 7.5% SRV)

Year 6 & 7 – 6% (2.5% rate cap plus 3.5% SRV)

Council resolved to align the document and include in the Delivery Program the following:

Year 1 & 2 – 15% (2.5% rate cap plus 12.5% SRV)

Years 3, 4 & 5 – 10% (2.5% rate cap plus 7.5% SRV)

Year 6 & 7 – 6% (2.5% rate cap plus 3.5% SRV)

The cumulative increase in rates is 97.8% over 7 years, including the cumulative increase of 18.9% from the rate peg increase.

Council Adoption Dates

Extra Ordinary Meeting May, 2018 – draft Delivery Program 2018-2022 placed on public exhibition

Extra Ordinary Meeting June, 2018 – Delivery Program 2018-2022 adopted by Council

Ordinary Meeting November 2018 – Amended Delivery Program 2018-2022 placed on public exhibition

Ordinary Meeting December 2018 – Amended Delivery Program 2018-2022 adopted by Council

Extra Ordinary Meeting January, 2019 – Alignment of Integrated Planning and Reporting documents reviewed

Extra Ordinary Meeting February 2019 - Alignment of Integrated Planning and Reporting documents adopted by Council. (See Attachment 28)

RESOURCING STRATEGY 2018-2022 (Including Long Term Financial Plan, Workforce Management Plan, Asset Management Plan)

The Resourcing Strategy, incorporating Long Term Financial Plan, Workforce Management Plan, Overarching Asset Management Planning. Attachment 4, clearly sets out the special rate variation and other funding scenarios discussing the size, cumulative increase and estimated impact on ratepayers. The Asset Management Plan is aligned to the Long Term Financial plan and sets out Council's funding shortfall for asset maintenance and renewal. The Asset Management Plan also sets out an improvement plan to support the implementation of consistent asset management processes for planning and managing community infrastructure.

Whilst the Resourcing Strategy 2018-2022 does not require public exhibition Council chose to exhibit this Strategy together with the Delivery Program 2018-2022 to ensure that the community was aware of the impact of the Special Rate Variation. Council also resolved to attach the Resourcing Strategy 2018-2022 to the Delivery Plan 2018-2022 as an addendum to create a single reference for the community to source information regarding Council's Improvement Plan and associated Special Rate Variation.

Council Adoption Dates

Ordinary Meeting November, 2018 – draft Resourcing Strategy 2018-2022 placed on public exhibition

Ordinary Meeting December, 2018 – Resourcing Strategy 2018-2022 adopted by Council

The following Asset Management Plans were place on public exhibition and subsequently adopted by Council and informed Council's Resourcing Strategy:-

Ordinary Meeting October 2018 – Draft Asset Management Policy placed on public exhibition

Ordinary Meeting November 2018 – Asset Management Policy adopted by Council

Ordinary Meeting October 2018 – Draft Transport Infrastructure Asset Management Plan placed on public exhibition

Ordinary Meeting November 2018 – Transport Infrastructure Asset Management Plan adopted by Council

Ordinary Meeting October 2018 – Draft Buildings Asset Management Plan placed on public exhibition

Ordinary Meeting November 2018 – Buildings Asset Management Plan adopted by Council

Ordinary Meeting October 2018 – Draft Urban Stormwater Drainage and Flood Protection Asset Management Plan placed on public exhibition

Ordinary Meeting November 2018 – Urban Stormwater Drainage and Flood Protection Asset Management Plan adopted by Council

Ordinary Meeting October 2018 – Draft Parks & Recreation Infrastructure Asset Management Plan placed on public exhibition

Ordinary Meeting November 2018 – Parks & Recreation Infrastructure Asset Management Plan adopted by Council

7 Assessment criterion 5: Productivity improvements and cost containment strategies

Criterion 5 in the Guidelines is:

The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

In this section, you must provide details of any productivity improvements and cost containment strategies that you have implemented during the last two years (or longer) and any plans for productivity improvements and cost containment over the duration of the proposed special variation.

The council should quantify in dollar terms its past and future productivity improvements and cost savings and present these as a percentage of operating expenditure where possible.

These strategies, which may be capital or operational in nature, must be aimed at reducing costs and/or improving efficiency. Indicate if any initiatives are to increase revenue eg, user charges. Please include below whether the proposed initiatives (ie, cost savings) have been factored into the council's Long Term Financial Plan.

The council may also provide indicators of efficiency, either over time or in comparison to other relevant councils (eg, it may provide trends for its operating expenditure as a percentage of population). We will make similar comparisons using various indicators and OLG data provided to us.

Council has been striving to improve its financial sustainability through a range of initiatives. Council has reviewed all operating expenditure to ensure that Council is spending every dollar it receives wisely, coupled with exploring all opportunities to maximise non-rating income.

One of Council's cost containment strategies has been the reduction in staffing. As a result, Council has a relatively low cost per capita for the delivery of services when compared to its peer group councils (ref: OLG 2016/2017 Council Comparative Time Series Data). Its \$2,197 total operating cost per capita is 70% of the peer group average and a third of the highest Council's cost per capita. This is indicative that Dungog offers a smaller range of services comparatively and that Council has minimised the cost to ratepayers for its services through years of efficiency savings driven by the reduction in net operating revenues over time. It may also indicate that Council is at risk of under-resourcing its operations. Essentially further productivity gains will be difficult to realise.

Dungog Council's EFT staff per head of population is the lowest in Group 10 councils. Additionally Dungog Council's EFT staff numbers are the second lowest in group 10 councils – 66 EFT as shown in OLG 2016/17 time series data.

Council's staff numbers have since been reduced, council's EFT currently sits at 63.5, down from 66 EFT and a vacancy rate of 3.5% has also been built in to council's 2018/19 budget.

Dungog Shire Council has also resolved to reduce its elected members from 9 Councillors to 7 Councillors in 2020 in an effort to reduce governance costs for the organisation. This decision followed on from a formal referendum result conducted as part of the 2017 local government election in which the community indicated that they were in favour of this outcome (72% of respondents supported the reduction in councillor numbers).

Council has very limited capacity to deliver significant ongoing productivity improvements. However, Council has commenced a service review program which will see the review of 1 to 2 services each year. In the current financial year Council is reviewing its operations at the Williams River Holiday Park and its Visitor Information Centre. It will also commence a review of its Aged Care Housing program for the purpose of transitioning this service to a more appropriate provider. Each of these reviews are aimed at reducing the operating deficit.

Council is updating corporate systems to create efficiency savings via improved technology – recent purchases include a new InfoCouncil system to streamline Council's business papers, the purchase of a new finance systems package to better streamline budgeting processes and the commencement of DA tracking to allow for self service thus relieving planning staff of the need for face to face engagement. Council is also in the process of reviewing its General Ledger to provide a better framework for Council and less reliance on excel spreadsheets. Council just completed a payroll efficiency review and streamlined staff payments from weekly to fortnightly to allow Corporate Services staff more time for other governance responsibilities.

In August 2018 Council contracted the services of GLN Planning consultancy to comprehensively review its Section 94 plan for the Shire to impose conditions on development consents or complying development certificates requiring Section 7.11 or 7.12 contributions or section 7.12 fixed rate levies from development to which the Plan applies. The contributions that are made by developers will be applied by Council to deliver a schedule of infrastructure land and works. It is expected that this revised plan will be placed on public exhibition in February, 2019 and with consideration given to community feedback adopted by Council in March, 2019.

Council is in the process of preparing a Rural Lands Strategy, which will help identify and quarantine the Shire's prime agricultural land. In turn this will allow Council to consider rezoning more marginal land for other purposes, such as residential and commercial uses to increase the overall rate base (and ultimately revenue). Updating the Local Environmental Plan will also be part of this process to ensure that Council's planning controls are conducive to appropriate development.

Over the course of 2018/19 financial year Council conducted a series of site inspections and workshops to review assets that were surplus to need that could be placed on the open market for sale. Council has identified two lots in Dungog and have proceeded with an expression of interest process. These two lots and the associated EOI are before Council for further consideration. Further sites will be identified over the course of the financial year and market testing will be conducted.

In considering the organisational structure, Council identified the need for a professional officer of Council who could assist in undertaking internal business reviews, process improvement, external assessments of business opportunities, supporting/upscaling local business, de-risking business ventures, developing strategic commercial partnerships and

creating own source revenue via business opportunities. In this regard Council has recruited a Manager Business Strategy and Investment. Council is of the view that this role will create new revenue stream opportunities that Council can benefit from. This role is a 3 year contract which will allow Council to review and act upon the purported benefits of the role. Also, as part of the organisational review Council committed to the recruitment of a Human Resources Officer – this role will assist in better training outcomes for staff, better alignment of staff to Council's operations and increased efficiencies with regard to workplace systems (ie: return to work, Work Force Planning etc).

Council recognises the opportunities to increase efficiency and improve financial sustainability through shared services and strategic alliances and the opportunities that this process presents. Council is currently partnering with the Hunter Joint Organisation (HJO) in this regard in areas such as weeds management, records storage, legal services, environmental services, and regional procurement. In addition, it is anticipated that other regional initiatives previously undertaken within the Hunter Region of Councils will continue. By way of example, the joint purchasing initiative over the last three years has resulted in savings across the Hunter region of over \$508,000, for Dungog Council the saving is over \$31,000. Further opportunities will also be pursued over time through continued participation in the HJO.

Council has explored and entered into further joint arrangements and contracts with larger Hunter Councils for service and commodity supplies in the following areas; Library Services (jointly provided with Newcastle City Council), Supply and Spray Bitumen Services, Supply and Install Guardrail, Supply and Deliver Emulsion, Line Marking Services, Traffic Control Services, Tree Pruning and Maintenance, Road Stabilising Services, Ready Mixed Concrete Supply, Traffic Safety Sign Supply, Concrete Pipes and Pits, Fuels, Oils and Lubricants, Supply of Tyres, and Supply of Electricity for Street Lighting. These contracts continue to provide efficiencies through the power of joint purchasing.

Council is also working closely with Hunter Water with both organisations recently agreeing to share their respective planned annual capital works program in an attempt to share resources (both staff and materials) on concurrent projects that are required in the Shire.

As discussed above the implementation of a service review program across Council is expected to deliver enhanced efficiency and effectiveness, improved productivity, and identify savings. The objective is to improve processes and information flow and importantly to enable automation across a range of Council's functions to further support the service review process. In doing so Council is:

- Implementing energy efficiency initiatives including solar and other green initiatives. Solar panels have been installed on council's administrative centre reducing power costs by 50%, an approximate saving of \$9,000 per annum.
- Extending the life of our landfill by increasing recycling and diversion rates, as these improve so does the life of our landfill.
- Managing projects related to enhanced funding (other than transport infrastructure) e.g. grant submissions, fees and charges review, Rural Land Use Strategy.
- Undertaking service reviews and assessing future options for service delivery reviews.

- Discussions have commenced in relation to potential strategic alliance options with Port Stephens and other Hunter Councils.
- Managing general savings and cost containment projects, e.g. asset rationalisation and overdue rates recovery, employee oncost review.
- Savings from joint contract negotiations e.g. waste management, print services and electricity supply.
- Human resourcing savings e.g. workers compensation. Council's workers compensation premium is now 1.98% of total wages paid, compared to the Local Government average of 3.24% leading to a saving in excess of \$65,000.
- Developing comprehensive asset management plans to identify future needs.
- Using technology and systems to improve productivity and efficiency e.g. online mapping, DA tracking and cloud and mobile computing.

Council has corresponded with the NSW Premier and met with the NSW Deputy Premier in Dungog, with the support of the Parliamentary Secretary for Planning, the Central Coast and the Hunter, Mr Scot McDonald to seek the following commitments to assist Council's to secure its financial future:-

- *A one-off bulk roads and bridges funding package for Dungog Shire Council through the Fixing Country Roads Program, to help ensure Council benefits equitably in the same way as comparable local government areas via RMS maintenance of State-classified roads.*
- *A review in a timely manner by the NSW State Government of the Block Grant Allocation formula.*
- *A formal evaluation by the NSW State Government of the financial, operational and community impacts of Council's proposal to reclassify the Maitland to Dungog Main Road (MR101) to 'State' classification under the Roads Act 1993.*
- *A formal financial and legislative evaluation by the NSW State Government of potential options and alternatives to restoring the State heritage-listed Brig O'Johnston Bridge at Clarence Town.*
- *That the NSW State Government commit to a blanket application for 'hardship' (either time-limited or permanent) applying to all Regional Growth Fund applications put forward by Dungog Council to alleviate the burden of financing grant co-contribution.*

8 List of attachments

The following is a list of the supporting documents to include with your application.

Some of these attachments will be mandatory to all special variation applications (eg, extracts from the Community Strategic Plan).

Other attachments will be required from some, but not all, councils. For example, extracts from the Asset Management Plan would be required from a council seeking approval of a special variation to fund infrastructure.

Councils should submit their application forms and attachments online through the Council Portal in the following order. Councils may number the attachments as they see fit.

Item	Included?
Mandatory forms and Attachments	
Part A Section 508A and Section 508(2) Application form (Excel spreadsheet)	<input type="checkbox"/>
Part B Application form (Word document) – this document	<input type="checkbox"/>
Relevant extracts from the Community Strategic Plan	<input type="checkbox"/>
Delivery Program	<input type="checkbox"/>
Long Term Financial Plan with projected (General Fund) financial statements (Income, Cash Flow and Financial Position) in Excel format	<input type="checkbox"/>
NSW Treasury Corporation report on financial sustainability (if available)	<input type="checkbox"/>
Media releases, public meeting notices, newspaper articles, fact sheets relating to the rate increase and proposed special variation	<input type="checkbox"/>
Community feedback (including surveys and results if applicable)	<input type="checkbox"/>
Hardship Policy	<input type="checkbox"/>
Resolution to apply for the proposed special variation	<input type="checkbox"/>
Certification (see Section 9)	<input type="checkbox"/>
Other Attachments	
Relevant extracts from the Asset Management Plan	<input type="checkbox"/>
Past Instruments of Approval (if applicable)	<input type="checkbox"/>
Resolution to adopt the revised Community Strategic Plan (if necessary) and/or Delivery Program	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>

9 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: [Dungog Shire Council](#)

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

General Manager (name): Ms [Coralie Nichols](#)

Signature and Date: 11 February 2019

Responsible Accounting Officer (name): [Mr Shaun Chandler](#)

Signature and Date: 11 February 2019

Once completed, please scan the signed certification and attach it as a public supporting document online via the Council Portal on IPART's website.