Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

For applications for 2014/15

Issued October 2013

Glen Innes Severn Council
Date Submitted to IPART: 24 February 2014
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The Tribunal members for this special variation assessment are:

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Contents

1 Introduction

Each council must complete this application form (Part B) in order to apply for a special variation to general income. The same Part B form is to be used for applications made either under section 508A or under section 508(2) of the *Local Government Act 1993*.

IPART assesses each application against the criteria set out in the Division of Local Government (DLG) *Guidelines for the preparation of an application for a special variation to general income for 2014/2015* (the Guidelines). Councils should refer to these guidelines before completing this application form. They are available at www.dlg.nsw.gov.au.

We also publish Fact Sheets on our role in local government rate setting and special variations and on the nature of community engagement for special variation applications. The latest Fact Sheets on these topics are dated September 2013. They are available on our website at www.ipart.nsw.gov.au.

Councils must complete this Part B form with a relevant Part A form, also posted on our website. The relevant Part A form is either:

- *Section 508(2) Special Variation Application Form 2014/15 – Part A* for a single percentage variation under section 508(2) or
- *Section 508A Special Variation Application Form 2014/15 – Part A* for more than one percentage variation under section 508A.

The amount of information to be provided is a matter for judgement, but it should be sufficient for us to make an evidence-based assessment of the council's application against each criterion. This form includes some questions that the application should address, and guidance on the information that we require. As a general rule, the higher the cumulative percentage increase requested, and the greater its complexity, the more detailed and extensive will be the information required.

2 Focus on Integrated Planning and Reporting

How a council considers and consults and engages on a special variation as part of its Integrated Planning and Reporting (IP&R) processes is fundamental to our assessment of the application for a special rate variation. Such a focus is clear from DLG's September 2013 *Guidelines*.

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

A council's suite of IP&R documents may also include supplementary and/or background publications used within its IP&R processes. As appropriate, you should refer to these documents to support your application for a special variation.

Briefly outline how the council has incorporated the special variation into its IP&R processes. Include details of and dates for community consultation, key document revisions, exhibition period(s) and the date(s) that the council adopted the relevant IP&R documents.

Glen Innes Severn Council's (GISC) is fully compliant with the Integrated Planning and Reporting (IP&R) Framework and has developed a comprehensive set of plans in consultation with the community that reflect community ideals balanced with a realistic assessment of our financial position. In November 2009 Council nominated to be part of Group 2, which meant that Council adopted its first Community Strategic Plan (CSP), Delivery Program (DP) and associated resourcing strategy documents before 30 June 2011.

Following the 2012 Local Government elections the CSP and DP were reviewed in February 2013 by the newly elected Councillors, who endorsed the work undertaken and agreed to update the Plan. The CSP review of GCL 2 (Governance and Civic Leadership) strategy remained unchanged "that Council demonstrates good governance and strong leadership and promotes the value of our local autonomy;" with the outcome being that Glen Innes Severn LGA maintains it's local autonomy. Review of GCL 3 changed to include the following strategy "Investigate opportunites to retain financial sustainability including a review of Council services and functions;" while the following remained the same "Council implements the Procurement Roadmap Program; To have a continuous improvement philosopy for the delivery of all Council services; and to manage community infrastructure effectively" with the outcome being that GISC is a well managed Council and an employer of choice. These were adopted by Council on the 18 April 2013 in a draft form for public exhibition until 17 May 2013, and were adopted on 25 July 2013.

Further the Delivery Program Actions was reviewed in December 2013 inline with the revised LTFP, GCL2.3 was added "To investigate a special rates variation and implement if necessary to improve the financial position of Council and reverse the trend of the infrastructure backlog growth." GCL2.4 was also added "Council staff to review operations and processes for savings iniatives that could be implemented." No changes were made to GCL 3.1 "Review and update the Long Term Financial Strategy; Develop and implement a services review framework; and Investigate opportunities to increase funding opportunities for Council." Councils Asset Management Plan (Transport) was also reviewed at this time incorporating the finding's from the review of Council's road hierarchy was conducted [Please refer to Attachment N] and to identify the impact of the proposed Special Rate Variation (SRV). These documents were adopted by Council on the 19 December 2013 in a draft form for public exhibition until the 11 February 2014, and were adopted on the 20 February 2014.

GCL 2.3	Glen Innes Severn LGA will keep its identity and Local Government has achieved Constitutional Recognition.	Investigate a special rates variation.	Council investigates a special rates variation and implements it if necessary to improve financial position of Council and reverse the trend of the infrastructure backlog growth.	DCCS MF		Special rates variation investigated, extensive community consultation communicating outcomes of investigation.
GCL 2.4	Glen Innes Severn LGA will keep its identity and Local Government has achieved Constitutional Recognition.	Identify and make operational savings which will be rediverted to infrastructure maintenance and renewals.	Council staff to review operations and processes for savings iniatives that could be implemented.	GM DCCS DIS DDRSS		Savings Iniatives Report 2013-2017 accumulated total over $3M. These funds then rediverted to infrastructure maintenance and renewals.

Delivery Program 2013 - 2017

31

Code	Objective	Strategy	Delivery Program Actions 2013-17	Responsible	Partners	Performance Measures by 2017
GCL 3.1	To be recognised as a well managed Council and an employer of choice.	Investigate opportunities to retain financial sustainability including a review of Council services and functions.	Review and update the Long Term Financial Strategy; Develop and implement a services review framework; Investigate opportunities to increase funding opportunities for Council.	DCCS		Auditors report that GISC is financially sustainable with improving ratios; Service review framework developed and commenced implementation.

The full Delivery Program 2013 - 2017 can be referred to at Attachment E.

On 23 May 2013, Council was presented with the findings of the independent assessment by the Treasury Corporation of NSW (TCORP) of Council's financial position and the wider financial sustainability of the NSW LG Sector [Please refer to Attachment A]. At this meeting Council carried Resolution 5.05/13 2. That Council requests the Director of Corporate and Community Services, when reviewing the Long Term Financial Plan later this calender year, to aim for Council achieving an operating surplus within in the next three (3) years. 4. That Council requests the Director of Community Services to research and present a report to Council by November 2013; exploring options and identifying the benefits of implementing a Special Rate Variation for the 2014/15 Financial Year.

While reviewing the Long Term Financial Plan (LTFP) Council undertook a comprehensive investigation of the long term financial needs of providing services and maintaining assets. Like most councils in NSW, limited revenue raising capacity, rising costs and community demands, and cost shifting from other levels of government has created financial constraints in meeting both operating costs and infrastructure maintenance requirements.

This investigation has shown that Council's existing rating level is short of what is required to provide existing services and maintain assets at current condition. This shortfall over the years has created a backlog of almost $26 million of works required to bring assets to a satisfactory condition. Assets will continue to further deteriorate if this situation is not addressed.

The only alternatives to a rate increase are to either reduce services or service levels in Council's general operations or do nothing and allow infrastructure assets to further deteriorate.

Council has strived to maintain financial sustainability without additional rate increases and has not previously applied for such a variation but feels it is now the only responsible action to take. Not addressing asset maintenance needs now will only result in accelerated deterioration of assets, placing a greater burden on future generations.

On 28 November 2013, Council was given a Presentation of Scenarios for the LTFP [Please refer to Attachment C]. The scenarios included the base case with four (4) different scenarios for Councils review. Annexures to this report included a comprehensive LTFP - Discussion Paper and the IPART Fact Sheet - Our role in local government rate-setting - special variations.

Council adopted in principle, Scenario 5 as its preferred option for consultation with the Community. Scenario 5 included a Special Rate Variation (SRV) and applying for a further Local Infrastructure Renewal Scheme (LIRS) Loan of four (4) million dollars. Council also requested that the nessessary arrangments for Community consultation sessions throughout the Local Government Area towards the end of January and beginning of February 2014 be arranged, to properly inform the Community of the effect and extent of the proposed Special Rates Variation and additional LIRS loan.

The revised Long Term Financial Plan and associated Discussion Paper, revised Delivery Program and revised Asset Management Plan (Transport) were placed on public exhibition for longer than the required 28 days.

Extensive Community consulation has taken place, which has included: public exhibition of all relevant documents, four (4) staff consultation / information sessions [Attachment D - shows slides used], newspaper advertisements [Attachment P], comprehensive mail out brochure to all ratepayers [Attachement F], media releases [Attachment J], radio coverage, Council's website, six (6) Community Consultation Forums were held (at a variety of locations and wide range of times to provide wide choice to the community, further details below), stake holder meetings were offered (although none requested), a community survey was attached to the mail out brochure and submissions were invited [Please refer to Attachment K, for copies of public submissions received, survey results and comments from the survey].

Community Consultation Forums were on the following:

- Glencoe 10am Monday 20 January

•	Red Range	7am Tuesday	21 January
•	Deepwater	7am Wednesday	22 January
•	Glen Innes	2pm Wednesday	22 Januray
•	Emmaville	7am Thursday	23 January
•	Glen Innes	7pm Monday	3 February

The first (5) Community Consultation Forums included brief speeches by senior staff [Please refer to Attachment G] followed by a question and answer session. Handout material given at these forums can be found at Attachment H. The final forum had a different format, brief speeches were given by the General Manager and Mayor [Please refer to Attachment I] followed by a question and answer session. Duration of each meeting was approximately 2 hours.

On 20 February 2014 Council adopted the revised LTFP, including applying to IPART for a SRV to be implemented from the 2014/15 financial year and applying for a further $4 million LIRS Loan.

3 Assessment criterion 1: Need for the variation

In the DLG Guidelines, criterion 1 is:

> *The need for and purpose of a different revenue path (as requested through the special variation) is clearly articulated and identified through the council's IP&R documents, including its Delivery Program and Long Term Financial Plan. Evidence for this criterion could include evidence of community need/desire for service levels/project and limited council resourcing alternatives and the Council's financial sustainability conducted by the NSW Treasury Corporation. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:*
>
> - *Baseline scenario – revenue and expenditure forecasts which reflects the business as usual model, and exclude the special variation, and*
> - *Special variation scenario – the result of approving the special variation in full is shown and reflected in the revenue forecast with the additional expenditure levels intended to be funded by the special variation.*

The response in this section 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, alternative funding options and the state of its financial sustainability.

The criterion states that all these aspects must be identified and articulated in the council's IP&R documents.

At the highest level, please indicate the key purpose(s) of the special variation by marking one or more of the boxes below with an "x".

Maintain existing services	☒
Enhance financial sustainability	☐
Environmental works	☐
Infrastructure maintenance / renewal	☒

Reduce infrastructure backlogs ☒

New infrastructure investment ☐

Other (specify) ☐

Summarise below the council's need for the special variation. Comment on how the need is captured in the IP&R documents, especially the Long Term Financial Plan (LTFP) and the Delivery Program, and, where appropriate, the Asset Management Plan (AMP). Note that the LTFP is to include both a 'baseline scenario' and an 'SV scenario' as defined in the *Guidelines*.

The Special Rate Variation (SRV) is needed as one measure to give Council's general operations the scope to become financially sustainable and remain so into the future, in terms of:

- meeting operational requirements
- fully funding depreciation; and
- being able to reduce the infrastructure backlog.

It is critical that Council can address the annual renewal gap immediately to avoid any further deterioration of vital infrastructure. The backlog is having an impact especially in the transport infrastructure class with dangerous road conditions and closed or load limited bridges, made worse by the increased rainfall over the last few years.

The Community Strategic Plan (CSP) and Delivery Program (DP) provide a vehicle for expressing long term community aspirations. However, these aspirations cannot be achieved without sufficient resources - time, money, assets and people - to actually carry them out.

The only alternative to a rate increase are to either reduce services or service levels in Council's general operations or do nothing and allow infrastructure assets to further deteriorate. If Council takes this option it will not be financially sustainable into the future and will also be placing a greater burden on future generations with regard the infrastructure backlog.

The need for an SRV has been covered in detail in various Council documents, including the revised LTFP Discussion Paper [Attachment C], the revised Delivery Program [Attachment E], and the revised Asset Management Plan (Transport) [Attachment E]. These documents were placed on public exhibition for longer than the required period of twenty eight (28) days. Thirty five (35) submissions were received regarding the LTPF and the associated SRV [Copies of submission are part of Attachment K]. Information on the SRV has been included in business paper reports and commentary relating to these documents, as well as the mail out brochure [Attachment F] and presentations to the Community.

Extracts of the above documents about the need for a SRV have been provided below. The two (2) main reasons are Financial Sustainability and Asset Management; two (2) further relevant reasons include LIRS funding and Internal Savings within Council are also discussed.

Financial Sustainability

The Integrated Planning and Reporting (IP&R) Framework, as well as the TCORP and the Independent Review Panel reports, came as a big shock to the majority of Councils in NSW, and have resulted in a realisation across the industry that Councils are in a poor and deteriorating position. This has further strengthened Council's focus on financial sustainability and good asset management practices.

Financial Sustainability is a complex topic and can be measured in a number of different ways. The main aim of the Glen Innes Severn LTFP is to address asset expenditure and to do so by achieving a balanced (or break even bottom line).

It is expected that the reviewed LTFP will accomplish this. As indicated in the November 2013 Report to Council, the benefits of LTFP Scenario 5 (which was adopted on 20 February 2014) are significant:

"This scenario indicates a stable cash position, a satisfactory operating position, and a balance between the general fund and the remaining funds, combined with an acceptable asset renewal ratio. This scenario will address a number of critical infrastructure projects which are of present concern.

This scenario is an improvement on earlier scenarios, in that it addresses all of the key concerns raised. It would be ideal to meet the required renewal ratio; however, this should be balanced with the additional benefit of bringing forward urgent works.

This scenario is suggested as the preferred and therefore recommended option."

The effect of the SRV is fully discussed in both the LTFP report and the associated discussion paper that were presented to Council on 28 November 2013 [Please refer to Attachment C]. The primary focus of the SRV is to address the financial sustainability of the Glen Innes Severn Local Government Area and to spend more money on roads.

Scenario 5 provides a significantly improved situation in the longer term compared with the Base Case scenario.

Asset Management
(This is summarised from the Asset Management Plans - Attachment E) Infrastructure assets, in particular roads and bridges, are currently in a poor and deteriorating state. This has come about primarily from lack of funding but also as a result of a lack of a longer term focus on assets, in earlier years.

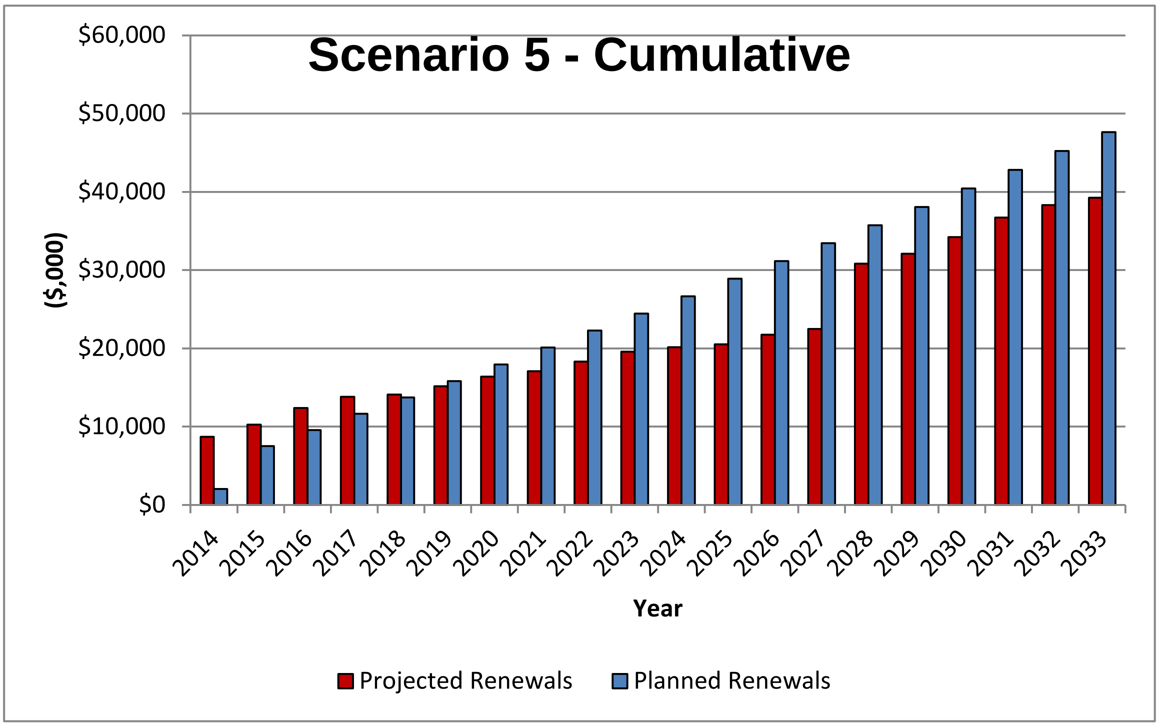
The historic budget for roads and bridges has been around $1million up to $1.5million, depending on grant funding. This is not sufficient to maintain the road asset base and therefore a backlog has developed.

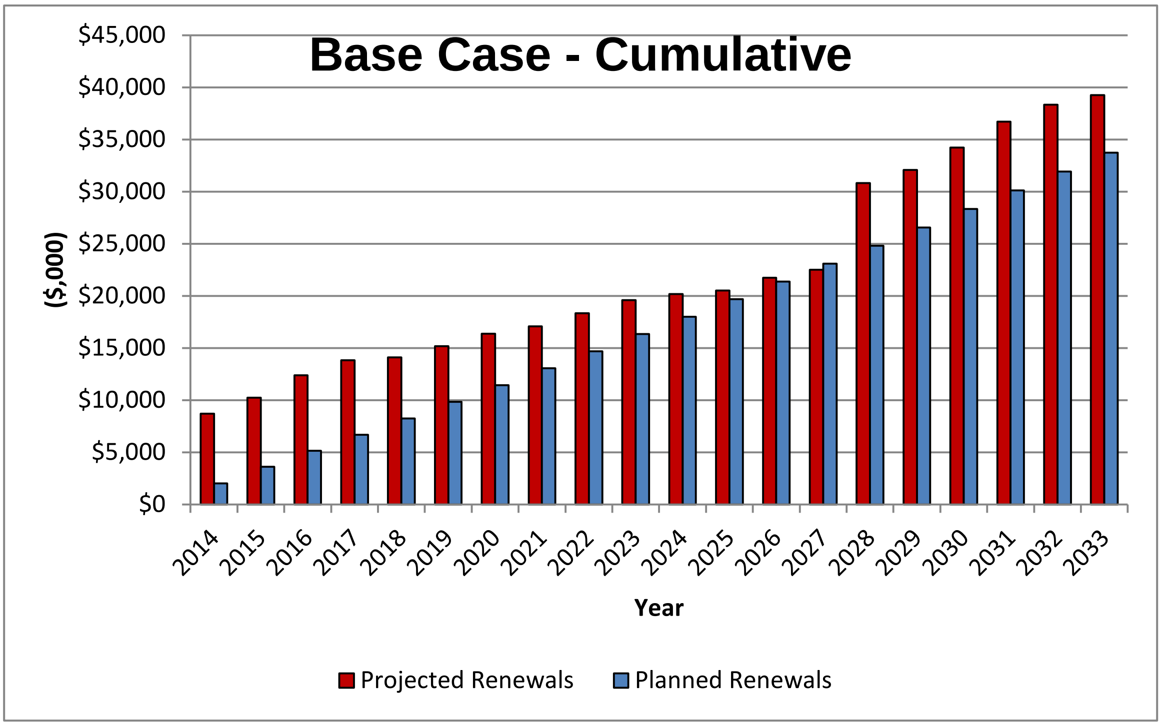
The extent of the backlog is significant. At present, Council has approximately $1.1 million in rebuilding costs for roads that are in condition five (5) which means if nothing is done within the next few years; the roads will become almost unserviceable. Council should also be spending around $3.2 million on roads in condition four (4), that without significant renewal will deteriorate to condition five (5); in addition to this Council has a backlog of over $4 million for roads in condition three (3), that without significant maintenance over the next few years will deteriorate to condition four (4).

Council has 128 road and pedestrian bridges and large culverts; from the recent inspections of these it has been advised that Council needs to spend in the order of $4.5 million to $4.7 million over the next ten (10) years. The inspection report also showed that 100 (of the 128) have been rated as requiring some type of work within the next year, and at least eight (8) of those need very significant rehabilitation or total replacement.

The SRV combined with a $4 million LIRS loan is a long term strategy to address the deteriorating condition of Council's assets. If successful the loan will enable Council to bring forward and address the majority of bridge problems. Therefore, based on the estimates, Council will only be left with a bridge backlog in the order of $500,000 to $700,000. The additional funding will also enable Council to repair and renew anywhere from an additional 10 to 30 road segments every year. By 2019, Council will be starting to address its road backlog, which means that the overall deterioration of roads will be slowed down, and in ten (10) years time the backlog will be starting to diminish.

The two (2) graphs below display a clear picture (Sourced from Council's AMP) [Please refer to Attachment E]. The base case results in a deteriorating position where projected renewals (required renewals) outstrip planned renewals (actual renewals). Scenario 5 indicates that the opposite is true and Council will start to deal with the backlog.





- TCORP has proven that bringing forward capital works is more cost effective than maintaining assets in a poor condition. For this reason TCORP is encouraging councils to borrow under the LIRS scheme. TCORP will do an independent assessment confirming that Council can afford to borrow this additional money;
- Completing a number of bridge projects in one (1) year will allow Council to obtain better value for money (through more competitive tendering);
- Council will also apply for grant funding that assists in addressing the infrastructure backlog (for example the recently announced bridge program); and,
- The increased funding will improve the regularity of resealing from 18 years to 12 years.

LIRS Funding

Scenario 5 in the LTFP – Discussion Paper [Attachment C] includes borrowing $4 million under this scheme; this money is proposed to be spent on bridges. Council is concerned about the state of its timber bridges in particular. Council has applied for this additional LIRS Loan.

Council has made this suggestion for the following reasons:

- Bridges are vital links for communities. Council has had to defer bridge works in the past because of the high costs involved;
- The expected interest rate (2%) is lower than Council's current return on Investments (approximately 3.7%);
- Council has access to historically low interest rates, fixed over ten (10) years;
- The cost of constructing bridges is increasing at about 5% per annum; therefore bringing work forward results in savings;
- Bringing forward more works is likely to result in Council receiving more competitive tenders as the work is of a significant scale;
- The cost of this subsidised debt funding is lower than maintaining a deteriorating asset; and
- It is a sound financial decision and Council will be able to make repayments on this loan. If approved, the money will be spent on renewing / replacing bridges of concern.

Council has reviewed the LTFP and concluded that the loan is affordable; however the Treasury Corporation will independently verify this before Council's application is approved. This ensures that Council can repay the loan within the required ten (10) year period; Council will use some of the funds from the Special Rates Variation to repay the loan and interest. The loan will allow Council to move forward $4 million of works, at an expected interest rate of around 2%.

Internal Savings Generated Within Council

Council has set itself the goal of saving in the order of $650,000 each year by implementing and pursuing the following initiatives:

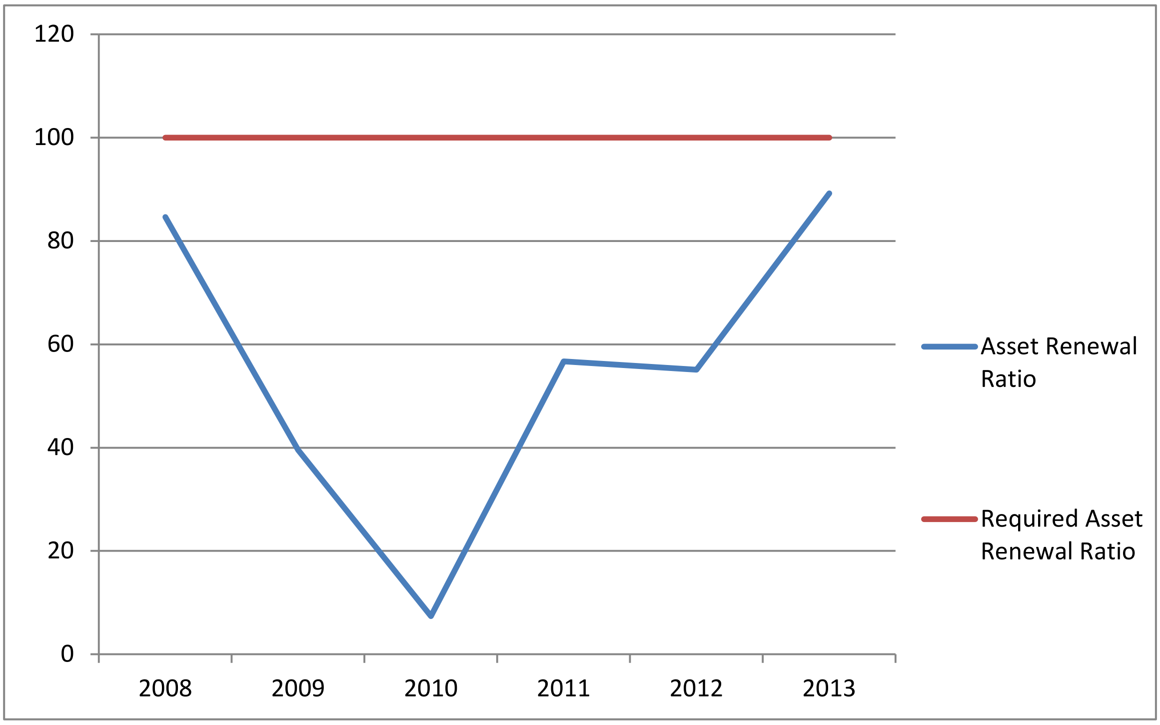
Internal Savings	$
Sale of properties not necessary for operational purposes:	Approximate Amounts
Tindale Units	18,000
Highwoods	20,000
Garden Court	25,000
Potters Parade Land	11,000
Abbott Street Land	25,000
AAFT Airport	200,000
Stricter Controls in Overtime and Time in Lieu	65,000
Non-replacement of staff on leave	50,000
Reduction in "Acting in Higher Grades"	24,000
Cutting 10 vehicles from light fleet	50,000

Shutting down of Freezer Rooms	20,000
Procurement Savings through new contracts	90,000
	598,000

There is more work to be done; further savings of $50,000 to $60,000 per year need to be identified.

The following is an extract from the LTFP [Attachment C]:

"Asset Conditions, in particular road conditions, will continue to deteriorate with current funding levels"



Current funding levels for the majority of assets is currently below what is required to properly maintain these assets. There is no way around this fact; Council can only spend what it has, and what it has, is insufficient to properly maintain its assets. This is likely to result in reducing service levels (therefore reducing the standard of service), such as not cleaning as often, reducing the size of a bridge when replacement is due, or reducing the width of a road).

The above graph indicates the actual asset renewal percentages for Council in recent years. The asset ratio is well below the required amount due to lack of funding. A required ratio of 100% is highlighted in red; this is the renewal ratio identified as necessary for proper asset renewal by TCORP. (Note: These figures are sourced from the Audited Financial Statements for Council from the 2008 to 2013 financial years).

The 2012/13 financial year shows an increase in this ratio, which is largely due to the additional loan funding for the CBD infrastructure upgrade and accelerated roads program, which was partially expended in that financial year. Therefore, as the amount is loan funded it should not be considered as a reoccurring improvement. The affordable level of renewals based on the Base Case Scenario indicates an expected continuing renewal ratio of around 60% to 70% in future years, which is comparable to the historic trend identified in this graph. When applying this actual renewal ratio to the total depreciation amount of $4.880 million, a 70% renewal ratio would suggest that Council is falling short of required asset renewals by $1.5 million (or 30%).

Hence the amount Council is seeking in the identified SRV is less than the actual required amount. The reason for this is that it is recognised that Council should preference particular asset groups (such as roads) over office buildings. The idea here is to address assets are the main priority, both for the Community and for Council. It is expected that the increase in funding (through a rate variation) will result in the following increases in road works (these are the estimates for road works costed into the LTFP):

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Road Works - SRV	**2,835,459**	**2,819,596**	**2,915,463**	**3,014,588**	**3,117,084**	**3,223,065**	**3,332,649**	**3,445,960**	**3,563,122**	**3,684,268**
Road Works - No SRV	**1,835,459**	**1,785,596**	**1,846,307**	**1,909,081**	**1,973,990**	**2,041,105**	**2,110,503**	**2,182,260**	**2,256,457**	**2,333,177**

It should be noted that the difference between the estimated SRV and the No SRV road works is marginally greater than the expected revenue for the suggested rates increases. The reason for this has to do with the possibility of paying a dividend across from the water and sewer fund, as well as recognising that if Council is in a better position it can afford to spend a little bit more in asset renewal, rather than retaining a greater cash reserve for emergencies."

Extract from Operational Plan 2013/14:

Council's Financial Position and the 2013/14 Operational Budget:

Council is in a difficult financial position and based on the current funding regime this is expected to continue, although, Council is committed to making the best of this position.

<u>What constitutes a difficult position?</u>

1. The most evident and prevalent concern to Council is the state of Councils infrastructure which in aggregate is expected to require at least $29.5 million to bring up to a satisfactory standard. Of this infrastructure backlog, approximately $15 million relates directly to public roads which corresponds with the need expressed by the Community at large. In particular sealed roads, unsealed roads and bridges are of major concern.
2. The infrastructure backlog is exacerbated by an inadequate annual maintenance allocation (based on a requirement of $3.5 million per annum compared with the actual allocation in the 2012 financial year of $2.2 million).
3. A significant rural road network combined with a limited rating base; which in comparison with large city Councils, creates a comparatively much larger drain on Councils limited financial resources.
4. Inadequate funding, Council does not receive adequate funding from either the Financial Assistance Grant or the Roads to Recovery Grant to address the infrastructure backlog or the annual shortfall in asset maintenance. Council would require at least an additional $2 million per annum to address these concerns.
5. Limited financial flexibility. Based on the Long Term Financial Plan, Council can borrow an additional $4.8 million but both an increase in the Roads to Recovery grant funding and the Financial Assistance Grant has been factored in to achieve this 'result'. Therefore, it would not be prudent to draw on any additional loans, as there is a moderate risk of these increases in grant funding not materialising. Therefore, Council has very little additional borrowing power above those loans already indicated in the Long Term Financial Plan

These same concerns were identified by the Treasury Corporation (TCorp) assessment completed on 21 March 2013 of Councils LTFP and associated documentation; in particular the following items were re-affirmed in the report:

- Council's Infrastructure Backlog is on an upward trend;
- Public road assets made up 54.0% of the Infrastructure Backlog;
- Council is not investing sufficient funds on asset renewals to keep the assets in their current condition and it is likely that the backlog will grow;
- Council's level of Infrastructure Backlog is well above benchmark; and
- The Asset Maintenance Ratio is below benchmark and underperformed against the group average over the review period. Council's Building and Infrastructure Asset Renewal Ratio was below benchmark over the past four years but has tracked the group average since 2011. The Capital Expenditure Ratio increased above benchmark and the group average in 2011 but is forecast to decrease below benchmark and its peer group in the medium term.

The TCorp report highlighted significant positives which included:

- The Council has been effectively managed over the review period;
- Council's underlying cash result (measured using earnings before income tax, depreciation and amortisation) has been increasing over the three year period;
- Council's Unrestricted Current Ratio has been above benchmark each year indicating Council had sufficient liquidity; and
- Council's Interest Cover Ratio and Debt Service Cover Ratio have been well above benchmark over the three year period.

It should be noted that for these reasons, Council was successful in obtaining the Local Infrastructure Renewal Grant of a four percent (4%) interest rate subsidy on both the $1 million Accelerated Roads Program as well as the $1.8 million Central Business District Revitalisation plan.

The TCorp report concluded that although Council was in a satisfactory financial position, the following matters should be further considered by Council;

- Council's rates and annual charges and user fees and charges make up only 42.0% of their overall revenue. We [TCorp] recommend Council considers its options for improving its performance in this area, either by securing new or additional revenue.
- Council is reliant on Operating Grants as a key source of revenue. While this is not unusual for rural LGA's it is an area that requires monitoring.
- While Council has forecast increases in operating grants Council should continue to source additional revenue streams should this not eventuate.

The proposed budget for the 2013/14 financial year remains tight and Council finds itself once again in the position of having to make difficult decisions.

To address the aforementioned issues, Council needs to maintain a proactive approach, with a particular focus on the following:

1. Ensuring that money spent on the infrastructure backlog is spent on maintaining those assets that have the greatest Community benefit and works that give Council the best 'bang for its buck'. Further, works should be targeted that prevent increased asset deterioration rather than purchasing or constructing new assets;
2. Identifying assets that do not serve the Community, that Council is still obliged to maintain, and selling these assets in a prudent staged process;

3. Making operational savings throughout the budget, by asking the question, "What are Councils core functions?" This may involve very difficult decisions but will ensure that the core functions of Council can be maintained;
4. Directing these savings from the budget into road renewal as well as maintaining key assets of public importance;
5. Improving the efficiency of the operational plant fleet, to reduce the cost of maintaining roads and other infrastructure as well as improving the efficiency of Councils maintenance related expenditure;
6. Identifying areas where further revenues can be raised, in particular for unfunded maintenance works or where Council is competing with local business for the same product or service; and
7. Identifying opportunities for organisation wide savings by thinking "outside of the box".

3.1 Community needs

Indicate how the council has identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision in deciding to apply for a special variation. The application should include extracts from, or references to, the IP&R document(s) that demonstrate how the council meets this criterion.

As part of the Financial Sustainability balance, service levels play a critical part. Service levels impact significantly on cost and it is imperative that the Community understand and appreciate the cost of a particular service level. Maintaining a balance between these two factors is community consultation.

As part of the Community Consultation process and as a direct consequence of a review of Council's expenditure a Roads Hierarchy and Open Spaces Hierarchy were developed to provide the Community with the ability to comment and influence the services levels of Council. These were advertised and consulted on publicly. [These documents are can be viewed in Attachment N and O].

These documents were put on public display and received a significant amount of feedback. These service levels have been incorporated in Council's LTFP and have largely driven the need to balance want with willingness to pay. These services levels are also incorporated in Council's Asset Management Plans (AMP) [Attachment E] and directly impact on required capital expenditure – the main aim on this SRV is to ensure that Council can meet these service levels in particular the quality of infrastructure. The cost (both capital and operational) of maintaining these service levels identified in the AMP (Transport) is also incorporated into the LTFP.

The results of the survey re-iterating the Communities concerns, needs and partial support are discussed below under *4.5 Considering the Communities capacity and willingness to pay.*

3.2 Alternative funding options

Explain how the decision to seek higher revenues was made after other options such as changing expenditure priorities or using alternative modes of service delivery were examined. Also explain the range of alternative revenue/financing options you considered and why the special variation is the most appropriate option. For example, typically these options would include introducing new or higher user charges and increase council borrowing, but may include private public partnerships or joint ventures.

Provide extracts from, or references to, the IP&R document(s) which show how the council considered the alternatives.

Council has considered a number of alternatives to avoid the need to apply for a SRV (or reduce the extent of the SRV). The alternatives considered (and in large part also actioned) include the following:

1) Increase in User Pays Fees and Charges

Council has had a particular focus on increasing User Fees and Charges to supplement services where the user only receives the benefit of the service. Council has as part of the last two Fees and Charges budget (Operational Plan) increased fees in an attempt to raise additional fees for the particular services that the fees are for. This involved a review of the actual costs of providing services and flowing from that, the need to balance fees with that cost. However, it would be impossible and unrealistic for Council to address the full shortfall in this manner. For example in respect of Council's swimming pools the point has been reached where increasing fees actually results in reduced attendance and therefore Council has in large part reached a standstill position.

In the 2013/14 Operational Budget Council adopted a drainage charge of $87 to fully fund the deteriorated Drainage system in the Glen Innes Severn Council area.

2) Increase in Loan funding

Loan funding has not only been considered by Council but has been actively included in as part of Councils Long Term Financial Planning Strategy, Council has actively used loan funding primarily due to TCORP's recommendations stating that Council is in a position to borrow and that borrowing is less expensive than maintaining deteriorating assets. Council has included $6.5million in additional borrowings in the revised LTFP to address large scale renewal works. Of this additional borrowing approximately $5million has been earmarked for LIRS funding with $1million already having been approved. It would be unrealistic and unaffordable for Council to borrow more than this amount and borrowings in themself will not address the backlog of over $25million. Therefore borrowing is only part of the answer, the loan repayments and interest payments must still be repaid. In this regard the adopted LTFP allows for the SRV in part to be spent on repaying $4million in loans. These loans are to be spent on bridges in a poor state of disrepair. A full review of Council's bridges has made this expenditure a necessity with recent community concern regarding the need to close the Nine Mile Bridge in Dundee.

3) Internal Savings

Council has identified that internal savings are a necessity. These internal savings have been covered in great detail in the last two operational plans, the LTFP and all the Community Consultation material. Council has committed to making $650,000 of internal savings and has made very difficult decisions such as the closure of the Gum Tree Glen Long Day Care Service which was operating at a loss in the order of $200,000 per annum.

The savings are identified below as part of the internal efficiencies section and form a very important part of Council's strategy to ensure long term financial sustainability. Council has also implemented an internal Savings Initiative Report which encourages Council staff to identify savings. Internal savings are also detailed in Councils Operational Plan (2013/14).

4) Other Revenues

Other revenues, in particular sale of properties and assets that are no longer required for operational reasons, have been actively pursued in the LTFP with a number of properties being identified for sale. These will provide additional cash reserves, combined with operational savings which can be re-distributed to Capital works – in particular roads, bridges and footpaths.

5) Increase in Grant Funding

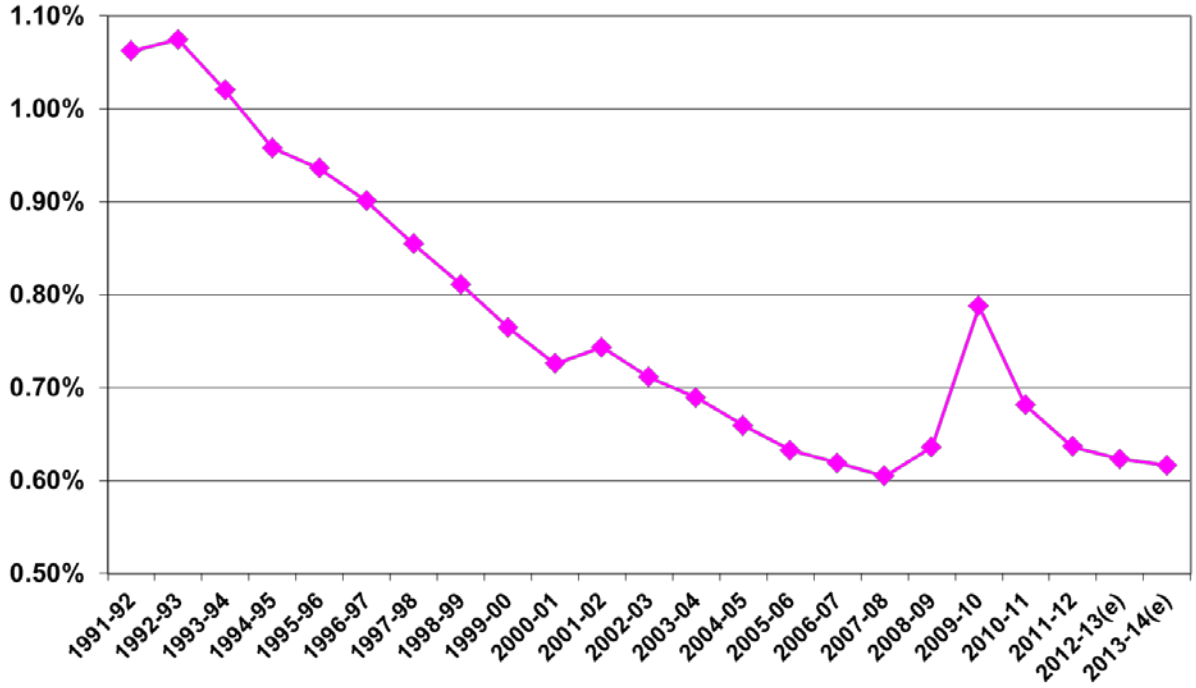
As indicated in the TCORP report the Glen Innes Severn Council is dependent on grant funding. This dependence is primarily on the Financial Assistance Grant and Roads to Recovery Funding. Council has lobbied both the State and Federal Government in this regard and has been largely unsuccessful. This need and the position of Council's grant funding are clearly indicated in the reviewed LTFP. The inability to further increase grant funding through lobbying of rural Councils has seen Council revise its expected grant funding increases downward. It should be noted that the TCORP review indicated that the original increases were in line with other Council expectations and were considered reasonable. However, Council has subsequently been advised by the Grants Commission that this is unlikely. This is the primary reason for the subsequent review of all Council's IP&R documents.

A reduction in the Financial Assistance Grant and Road to Recovery Grant Increases

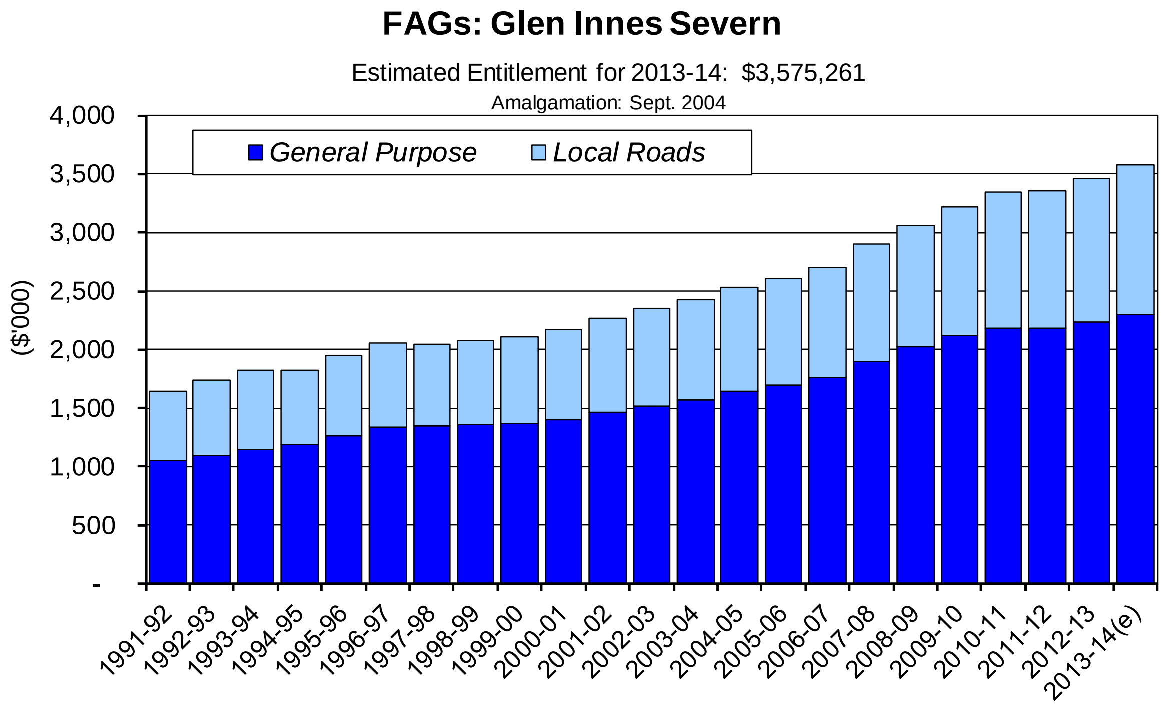
The reason for the removal of the FAGS and the R2R increases are largely due to a meeting between Council and the NSW Grants Commission on 21 October 2013, held in Glen Innes. In this meeting it was identified that there is unlikely to be any significant increase in grant funding in future years. Further, if an increase does materialise, it is likely to be the removal of the minimum per capita rate from the Financial Assistance Grant calculation. A removal of the minimum per capita rate would see a reduction in grant revenue to city councils, with an increase in funding to rural councils such as Glen Innes Severn Council. However, this would require a Commonwealth law change, which is unlikely. If the law change does materialise, the increase is expected to be in the order of $300,000. This would still not provide a balanced budget, and therefore relying on an increase in grant revenue to 'save' Council would be unproductive and unrealistic.

A copy of the presentation made to Council by the Grants Commission is included in Attachment C.

Of particular note is a graph from the presentation indicating the proportion of Commonwealth revenue that the FAG represents. The spike in the graph in 2009/10 and 2010/11 was due to a significant decrease in Commonwealth revenues in the Global Financial Crisis, not due to a significant increase in funding.



A further graph of note is the comparison of the Financial Assistance Grant entitlement for Glen Innes Severn Council from 1991-92 to 2013-14. It is assumed that the earlier years would include the consolidated amount received for the Severn Shire and Glen Innes Municipal Councils. The Graph shows a gradual increase, suggesting that it is unlikely that there would be any sudden or significant increases. In fact, it should be noted, that due to low population growth, the increase in FAGs for the current financial year is less than the State average. Therefore, on this basis it is argued that the increases in this grant are likely to continue at a similar rate to the Consumer Price Index.



Consideration of Alternative Scenarios:

As part of the LTFP review and as part of a Workshop with Councillors[Presentation can be reviewed at Attachment B], five (5) scenarios were considered which included the Base Case (or Status Quo) Scenario compared with four (4) further scenarios.

These scenarios as well as the particular quantum of the variation have been discussed in depth in Council's LTFP [Attachment C]. Only the Base Case and recommended Scenario 5 were compared in Council's AMP (transport) [Attachment E].

Extracts from the Business Paper for adoption of the reviewed LTFP for Community Consultation on 28 November 2013 are below (these extracts provide a summary of the LTFP scenario discussion which is in significantly more depth [Attachment C]):

Council staff have prepared five (5) scenarios for discussion. These scenarios have been prepared based on the same base case scenario which has refined the adopted Long Term Financial Plan (from June 2012).

The previous LTFP was adjusted to account for a number of variations which arose after its preparation. The variability of the plan is understandable given the fluctuations that naturally arise in the public sector (primarily in grants and contributions). Therefore, it is common practice to review the plan on an annual basis. However, in this particular case the review of the plan is of even more importance, given the release of the various reports on financial sustainability in Local Government and the recommendations associated with these reports.

These adjustments are discussed on page 5 of Annexure E of Attachment C.

The five (5) scenarios prepared and discussed in the LTFP Discussion Paper [Annexure E] are as follows:
Scenario 1 – *Base Case Scenario*
Scenario 2 – *Implementation of a Special Rate Variation for three (3) years*
Scenario 3 – *Special Rates Variation and Local Infrastructure Renewal Scheme (LIRS) Loan*
Scenario 4 – *Special Rates Variation and Unsubsidised Loan*
Scenario 5 – *Special Rates Variation and Local Infrastructure Renewal Scheme (LIRS) Loan and Reduced Capital Expenditure.*

These scenarios have been developed to address the TCORP ratios identified in the TCORP report titled "Financial Sustainability of the New South Wales Local Government Sector – Findings, Recommendations and Analysis". The current position of Council and the financial position in preceding years are illustrated below:

In accordance with the LTFP - Discussion Paper [Attachment C], the TCORP ratios indicate the need to address the infrastructure side of Council's financial balance (the infrastructure ratios). The development of the LTFP has been targeted at addressing these, while maintaining the Financial Ratios above benchmark. The scenarios identified above are expected to have the following impact on the LTFP:

TCORP RATIOS		Year ended 30 June			
	Bench	Council			
		2013	2012	2011	2010
Operating Ratio	> (4.0%)	(4.53%)	(0.27%)	(12.1%)	(5.4%)
Interest Cover Ratio	> 4.00x	5.58x	7.46x	8.42x	7.02x
Debt Service Cover Ratio	> 2.00x	3.34x	4.78x	5.13x	4.44x
Unrestricted Current Ratio	> 1.50x	4.78x	3.46x	2.40x	2.83x
Own Source Operating Revenue Ratio	> 60.0%	44.68%	39.65%	31.5%	32.2%
Cash Expense Ratio	> 3.0 months	8.64 months	6.98 months	6.8 months	7.0 months
Infrastructure Ratios					
Infrastructure Backlog Ratio	< 0.02x	0.12x	0.14x	0.17x	0.16x
Asset Maintenance Ratio	> 1.00x	0.74x	0.63x	0.62x	0.62x
Building and Infrastructure Renewals Ratio	> 1.00x	0.89x	0.55x	0.57x	0.07x
Capital Expenditure Ratio	> 1.10x	0.87x	1.37x	1.10x	0.51x

ESTIMATED	TCORP Bench.	Year ended 30 June 2023				
		Scenario				
		1	2	3	4	5
Operating Ratio	> (4.0%)					
Interest Cover Ratio	> 4.00x					
Debt Service Cover Ratio	> 2.00x					
Unrestricted Current Ratio	> 1.50x					
Own Source Operating Revenue Ratio	> 60.0%					
Cash Expense Ratio	> 3.0 months					
Infrastructure Backlog Ratio	< 0.02x					
Asset Maintenance Ratio	> 1.00x					
Building and Infrastructure Renewals Ratio	> 1.00x					
Capital Expenditure Ratio	> 1.10x					

	Good	Above TCORP Ratio
		Close to achieving Ratio or above ratio and deteriorating slowly
	Average	Reasonable but short of TCORP ratio.
		Improving but still of concern.
	Poor	Below TCORP ratio with no chance of achieving required ratio possibly deteriorating.

Scenario 2 and 5 are expected to bring Council to a sustainable position, based on the TCORP measure of on average meeting the benchmarks identified. Scenario 1 will have few above benchmark ratios, suggesting a deteriorating position that will not meet the TCORP requirements identified. Therefore the status quo is not suggested as a preferred course of action.

Financial indicators of each scenario are discussed in more detail in the LTFP Discussion Paper [Attachment C].

Scenario 1 – Base Case Scenario
This is discussed on page 11 of Annexure E of Attachment C and indicates: This scenario can be adopted by Council with an adjustment in total capital expenditure. This adjustment will reduce capital expenditure to approximately what was identified in the original LTFP. This capital expenditure is not sufficient to meet the requirements indentified by TCORP in regard to asset renewal. The plan will also not achieve Council's adopted goal of achieving an operating surplus within three (3) years. Therefore, further scenarios have been developed, investigating the possibility of a special rates variation.

Scenario 2 –Implementation of a Special Rate Variation for three (3) years
This is discussed on page 15 of Annexure E of Attachment C and indicates: This scenario indicates an improved cash position, a satisfactory operating position, and a balance between the general fund and the remaining funds, combined with a good asset renewal ratio. This scenario is a significant improvement on the Base Case Scenario, and will put Council in a very progressive situation in respect of asset renewal.

It should be noted that this scenario has several weaknesses; it still does not address the infrastructure backlog (or deferred asset renewals), nor does it deal adequately with the infrastructure items (such as bridges) which are in a poor state and need to be renewed as a matter of urgency.

This scenario is certainly an improvement on both the previous LTFP and the Base Case Scenario. This option is a good scenario for Council to consider.

Scenario 3 – Special Rates Variation and Local Infrastructure Renewal Scheme (LIRS) Loan
This is discussed on page 29 of Annexure E of Attachment C and indicates: This scenario indicates a deteriorating cash position, a satisfactory operating position, and a balance between the general fund and the remaining funds, combined with a good asset renewal ratio. This scenario will address a number of critical infrastructure projects, which are of present concern. The only concern with this scenario is the fact that the cash position is deteriorating, due to the increased loan repayments.

This is a reasonable scenario apart from the reduction in cash and cash equivalents. This decrease can be addressed by a reduction in annual capital expenditure, to match the loan repayments and additional interest expense on the loan.

Based on scenario two (2), additional scenarios were developed. The first was to answer the question of what impact an unsubsidised loan of the same amount would have on Council (Scenario 4 – Unsubsidised Loan $4million), and the second what impact the four million dollar LIRS loan with reduced capital expenditure in future years would have (Scenario 5 – Local Infrastructure Renewal Scheme (LIRS) Loan and Reduced Capital Expenditure).

Scenario 4 – Special Rates Variation and Unsubsidised Loan
This is discussed on page 38 of Annexure E of Attachment C and indicates: This scenario has been prepared in case Council adopts Scenario 3, but is not successful in obtaining the LIRS loan. This is a reasonable possibility, but should only be considered if Council's application for LIRS funding is not successful. Further, the scenario would need to be modified to reduce capital expenditure, to ensure that Council is in a satisfactory cash position. This would lead to a reduced capital renewal ratio, which is not ideal. It may be more suitable to delay some urgent works and reduce the extent (or value) of the loan.

Scenario 5 –Special Rates Variation and Local Infrastructure Renewal Scheme (LIRS) Loan and Reduced Capital Expenditure
This is discussed on page 40 of Annexure E of Attachment C and indicates: This scenario indicates a stable cash position, a satisfactory operating position, and a balance between the general fund and the remaining funds, combined with an acceptable asset renewal ratio. This scenario will address a number of critical infrastructure projects which are of present concern.

This scenario is an improvement on earlier scenarios, in that it addresses all of the key concerns raised. It would be ideal to meet the required renewal ratio; however, this should be balanced with the additional benefit of bringing forward urgent works.

This scenario is suggested as the preferred and therefore recommended option.

3.3 State of financial sustainability

The special variation may be intended to improve the council's underlying financial position, 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.

The application should set out the council's understanding of its current state of financial sustainability, as well as long-term projections based on alternative scenarios and assumptions about revenue and expenditure. Such evidence can be drawn from the LTFP and from any external assessment, eg by auditors or TCorp.

Explain the council's view of its financial sustainability as it relates to the application for a special variation.

Council's Special Rate Variation application is targeted at 1) Achieving a breakeven operating position and 2) Allowing Council to spend the amount of money required to meet the asset renewal ratios (100%) identified by TCORP and Councils Asset Management Plan (AMP).

Therefore Council is trying to 'cash fund' its depreciation. The depreciation has been determined based on the service levels adopted through Community consultation (the Road Hierarchy and Open Spaces Hierarchy [Attachments N and O]) and identified in the AMP [Attachment E] and therefore effectively Council is looking to source the shortfall between the Communities desired service level and the current (pre-SRV) affordable service level. Based on the reviewed LTFP it is clear that a multi-pronged approach is required to address this shortfall.

The approach adopted by Council is as follows:

1) Sourcing additional revenue through a SRV (as identified in the LTFP);
2) Using subsidised LIRS loan funding to bring forward bridge works which cannot be delayed any longer;

3) Sourcing the variance between the SRV (that the community can afford) and the required capital works through internal savings (as identified in this report).

The SRV quantum has been identified from the LTFP through a comparison of Councils rates and the regional average of neighbouring Councils. The argument raised is that this is the method by which to measure affordability of the increase. Further indicators of affordability include the low outstanding rates (lowest point in at least ten (10) years) and the small proportion that rates form of total household and farming income. This is estimated at between one (1) and two (2) percent. These, suggest that an increase is unlikely to have a significant effect on profitability.

Council has taken a very serious approach to financial sustainability, realising that a short term view can be a destructive one, in particular with regard to Council's trusteeship of approximately $362million in infrastructure assets and a current infrastructure backlog of more than $25million.

The aforementioned focus of infrastructure renewal and addressing the backlog can be clearly seen in the LTFP, Asset Management Plans and Delivery Program.

Extract from the LTFP: Council has identified the actual required capital works for infrastructure assets and these have been included in the LTFP to identify the true funding position for infrastructure assets.

One of the more significant changes in this reviewed plan is the change in projected capital expenditure. The capital expenditure identified in this plan exceeds that of the original plan, which included a reasonably conservative capital expenditure schedule.

The total capital expenditure can be compared as follows:

	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)	$ (000)
ORIGINAL PLAN	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Capital Expenditure	3,640	5,861	3,301	4,337	3,903	4,442	3,490	3,533	3,588	N/A
Loan Funding		2,000		1,000		1,000				N/A
Base Capital Expenditure	3,640	3,861	3,301	3,337	3,903	3,442	3,490	3,533	3,588	N/A
SCENARIO 1: BASE CASE										
Total Capital Expenditure	7,407	5,777	4,310	4,447	5,102	4,749	4,905	5,064	5,235	5,372
Loan Funding		2,500								
Base Capital Expenditure	7,407	3,277	4,310	4,447	5,102	4,749	4,905	5,064	5,235	5,372
VARIANCE	3,767	(584)	1,009	1,110	1,199	1,307	1,415	1,531	1,647	N/A
Adjustment for Shortfall in Cash Year on Year	N/A	(1,000)	(1,034)	(1,069)	(1,105)	(1,143)	(1,182)	(1,222)	(1,264)	N/A
Actual Affordable Capital Expenditure	N/A	2,277	3,276	3,378	3,996	3,606	3,723	3,842	3,971	N/A
Depreciation	N/A	5,140	5,167	5,196	5,227	5,258	5,291	5,326	5,362	N/A
Expected Asset Expenditure Ratio (taking into account shortfall in cash)	N/A	44%	63%	65%	76%	69%	70%	72%	74%	N/A

The vast majority of these capital increases are in respect of road and road related infrastructure, which have been identified as an area of particular focus. The amounts required for road infrastructure, drainage works, water and sewer related infrastructure are derived from the required annual capital expenditure, as well as the asset management plans. The aim of Council is to achieve asset renewal ratio of 1:1 (or 100%), thereby ensuring that Council renews all of its critical infrastructure assets. The impact of the increased capital expenditure is discussed further below.

It is appreciated that the asset renewal ratio and asset expenditure ratio are separate ratios. However, as new asset expenditure has not been identified for the life of the plan, Council should target an asset expenditure ratio of 1:1 with all capital works being renewals of existing assets. This would also equate to a 1:1 asset renewal ratio. It should be noted that the TCORP ratios for asset renewal and asset expenditure are different (1:1.1 for asset expenditure and 1:1 for asset renewal).[1] In our particular case, it is not suggested that a 1:1.1 ratio is appropriate as population growth, and therefore demand growth is much lower than 10% per annum. One would expect that the appropriate asset expenditure ratio would be 100%, to ensure that all assets are renewed, while a premium for population and demand growth would be in the order of one to three percent (1 – 3%) in our Local Government Area.

In regard to the shortfall in cash per annum, this amount has been estimated based on the reduction in cash on the balance sheet for the base case scenario. It is only an estimate, but will be reasonably accurate in terms of what is affordable. The same capital expenditure (apart from major projects) has been used between all the scenarios, to ensure that senior staff/Councillors are "comparing apples with apples." Comparing scenarios where different base line capital expenditure amounts are used will not accurately reflect our true position. The capital expenditure amounts between the Base Case Scenario and the Special Rates Variation with LIRS Scenario are further considered below.

Explain how TCorp's recent Report on the council's financial sustainability is relevant in supporting the decision to apply for a special variation.

The TCORP review of Council has been one of the most important drivers toward financial sustainability for the Glen Innes Severn Council. The appropriateness of all scenarios has been reviewed with the express purpose of addressing the indicators developed by TCORP.

Extract from LTFP regarding TCORP report:
"The relatively recent (21 March 2013) TCORP report in respect of the Glen Innes Severn Council noted that Council is 'effectively managed' and in large part its financial ratios are strong and improving.

A quote from the TCORP report notes the following:
"The Council has been effectively managed over the review period based on the following observations:
- *Council's underlying cash result (measured using EBITDA) has been increasing over the three year period;*
- *Council's Unrestricted Current Ratio has been above benchmark each year indicating Council had sufficient liquidity;*
- *Council's Interest Cover Ratio and DSCR have been well above benchmark over the three year period."*

[1] Page 7, Treasury Corporation New South Wales, Glen Innes Severn Council – Financial Assessment Benchmarking Report, release 21 March 2013, available at http://www.dlg.nsw.gov.au/dlg/dlghome/documents/tcorp/Glen%20Innes%20Severn%20Financial%20Assessment%20Report.pdf

However, in respect of the asset renewal ratio the report also notes:

- *"The Council's Infrastructure Backlog is on an upward trend;*
- *Council is not investing sufficient funds on asset renewals to keep the assets in their current condition and it is likely that the backlog will grow."*

The recommendations made by TCORP included the following:

"However we would also recommend that the following points be considered:

- *Council's rates and annual charges and user fees and charges make up only 42.0% of their overall revenue. We recommend Council considers its options for improving its performance in this area, either by securing new or additional revenue;*
- *Council is reliant on Operating Grants as a key source of revenue. While this is not unusual for rural LGA's it is an area that requires monitoring;*
- *While Council has forecast increases in operating grants Council should continue to source additional revenue streams should this not eventuate"*

At this point in time, based on the fact that the increase in operational grants (the Financial Assistance Grant and the Roads to Recovery Grant) are unlikely to increase, Council staff suggest following the advice of TCORP and that Council address the shortfall in Rates and Annual Charges through a Special Rate Variation."

As mentioned above Council considered the impact of each scenario primarily from how it is expected these scenarios would influence Council's TCORP ratio's in the next ten (10) years. This comparison, as well as a number of the indicators, is discussed for each scenario, a comparison is made below of the end result.

Extract from Long Term Financial Plan: "TCORP" Scenario Comparison:

Council's current position, based on the TCORP ratios identified in both the TCORP report (2010 and 2011) and the audited financial statements for 2012 and 2013 financial years, is as follows:

TCORP RATIOS			Year ended 30 June		
	Benchmark	Council			
		2013	2012	2011	2010
Financial Ratios					
Operating Ratio	> (4.0%)	(4.53%)	(0.27%)	(12.1%)	(5.4%)
Interest Cover Ratio	> 4.00x	5.58x	7.46x	8.42x	7.02x
Debt Service Cover Ratio	> 2.00x	3.34x	4.78x	5.13x	4.44x
Unrestricted Current Ratio	> 1.50x	4.78x	3.46x	2.40x	2.83x
Own Source Operating Revenue Ratio	> 60.0%	44.68%	39.65%	31.5%	32.2%
Cash Expense Ratio	> 3.0 months	8.64 months	6.98 months	6.8 months	7.0 months
Infrastructure Ratios					
Infrastructure Backlog Ratio	< 0.02x	0.12x	0.14x	0.17x	0.16x
Asset Maintenance Ratio	> 1.00x	0.74x	0.63x	0.62x	0.62x
Building and Infrastructure Renewals Ratio	> 1.00x	0.89x	0.55x	0.57x	0.07x
Capital Expenditure Ratio	> 1.10x	0.87x	1.37x	1.10x	0.51x

The TCORP ratios indicate the need to address the infrastructure side of Council's financial balance. The other two (2) ratios of concern are the Operating and Own Source Operating Revenue Ratio. With Scenario 2, 3, 4 and 5, these would be addressed to a large extent. The 2012 and 2011 financial years indicate an acceptable Capital Expenditure Ratio, due to above average asset purchases. This is not affordable in the longer term without additional revenue sources.

It should also be noted that the majority of financial ratios, as well as the infrastructure ratios, are improving, but there is a limit to the ability of Council to re-allocate funds.

ESTIMATED	TCORP Benchmark	Year ended 30 June 2023				
		Scenario				
		1	2	3	4	5
Operating Ratio	> (4.0%)					
Interest Cover Ratio	> 4.00x					
Debt Service Cover Ratio	> 2.00x					
Unrestricted Current Ratio	> 1.50x					
Own Source Operating Revenue Ratio	> 60.0%					
Cash Expense Ratio	> 3.0 months					
Infrastructure Backlog Ratio	< 0.02x					
Asset Maintenance Ratio	> 1.00x					
Building and Infrastructure Renewals Ratio	> 1.00x					
Capital Expenditure Ratio	> 1.10x					

	Good	Above TCORP Ratio
		Close to achieving Ratio or above ratio and deteriorating slowly
	Average	Reasonable but short of TCORP ratio.
		Improving but still of concern.
	Poor	Below TCORP ratio with no chance of achieving required ratio possibly deteriorating.

The ratios table on the left indicates whether the ratios are expected to be above or below the TCORP ratio at the end of the plan. The table indicates that scenario 2 and 5 are most appropriate when targeting an improvement in the ratios identified by TCORP to measure sustainability. These two (2) scenarios will put Council in a reasonable position to argue financial sustainability. Both of these scenarios include a Special Rates Variation as identified in Scenario 2. It should also be noted that these projections are estimates made for Council's position ten (10) years into the future, and therefore are an indication only. For this reason, projections of actual ratios have not been used.

It is difficult to translate these figures into what 'happens on the ground,' and for this reason they must be read in conjunction with the estimate of additional road works that can be completed based on this additional funding. The balance for a large number of ratepayers will be the effect, the additional amount payable in rates will have on the quality of their road.

The suggestion to apply for a Special Rate Variation is not an easy one. The work involved is significant, and the community backlash can also be hard to deal with. The suggestion is made on the basis that this is a good option for our Community; especially in the longer term it is the right decision to make to ensure that assets are maintained to a proper standard into the future guaranteeing a sustainable Council.

How will the special variation affect the council's key financial indicators over the 10-year planning period? Key indicators may include:

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

The Key Performance Indicators in respect of Council's financial position for all five (5) discussed Scenarios are included in Council's LTFP [Attachment C]. The effect of the SRV on Council's financial position is also discussed in Council's Asset Management Plan (Transport) [Attachment E] in particular the impact on the infrastructure backlog. The AMP only included the effect on the Base Case Scenario and Scenario 5 being the recommend SRV scenario.

Extract from LTFP:
Scenario 5: SRV and Local Infrastructure Renewal Scheme (LIRS) Loan and Reduced Capital Expenditure

3.3.2 Introduction

This scenario is based on "Scenario 3 – Special Rates Variation and Local Infrastructure Renewal Scheme (LIRS) Loan", except the amount of capital expenditure allocated on an annual basis is reduced. The amount of capital expenditure has been reduced to compensate for the deterioration in the cash position associated with that scenario. The capital expenditure has been reduced by the amount of the loan and interest repayments on the four million dollar loan, to ensure that the loan has less impact on the cash position of Council.

Capital Expenditure in this Scenario

As with the Special Rate Variation Scenario, the major benefit of this scenario is the increased capital expenditure, which results in an improved renewal ratio. This is not as pronounced as Scenario 2, 3 and 4, but will ensure that the cash position for Council remains satisfactory while addressing the $4million in bridgework required urgently.

The total capital expenditure (excluding loan funded expenditure) can be compared as follows:

	$0	$0	$0	$0	$0	$0	$0	$0	$0
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SCENARIO 1: BASE CASE	2,277	3,276	3,378	3,996	3,606	3,723	3,842	3,971	N/A
Depreciation	5,140	5,167	5,196	5,227	5,258	5,291	5,326	5,362	N/A
Expected Asset Expenditure Ratio	44%	63%	65%	76%	69%	70%	72%	74%	N/A
SCENARIO 3: SRV and LIRS	3,277	4,310	4,447	5,102	4,749	4,905	5,064	5,235	5,372
Depreciation	5,140	5,167	5,196	5,227	5,258	5,291	5,326	5,362	N/A
Expected Asset Expenditure Ratio	64%	83%	86%	98%	90%	93%	95%	98%	N/A
SCENARIO 5: SRV and LIRS reduced capital expenditure	2,835	3,868	4,005	4,660	4,307	4,463	4,622	4,793	4,930
Depreciation	5,140	5,167	5,196	5,227	5,258	5,291	5,326	5,362	N/A
Expected Asset Expenditure Ratio	55%	75%	77%	89%	82%	84%	87%	89%	N/A

As indicated, in Scenario 5 the Asset Expenditure Ratio is lower than Scenario 3. However, the ratio is still strong compared with earlier years.[2] *However, it should be noted that the TCORP ratio for asset renewal is 100%.*

[2] Asset Renewal Ratios for earlier year are as follows: 2008 – 84.67%, 2009 – 39.54%, 2010 – 7.37%, 2011 – 56.67%, 2012 – 55.09%, 2013 – 89.24%

Income Statement

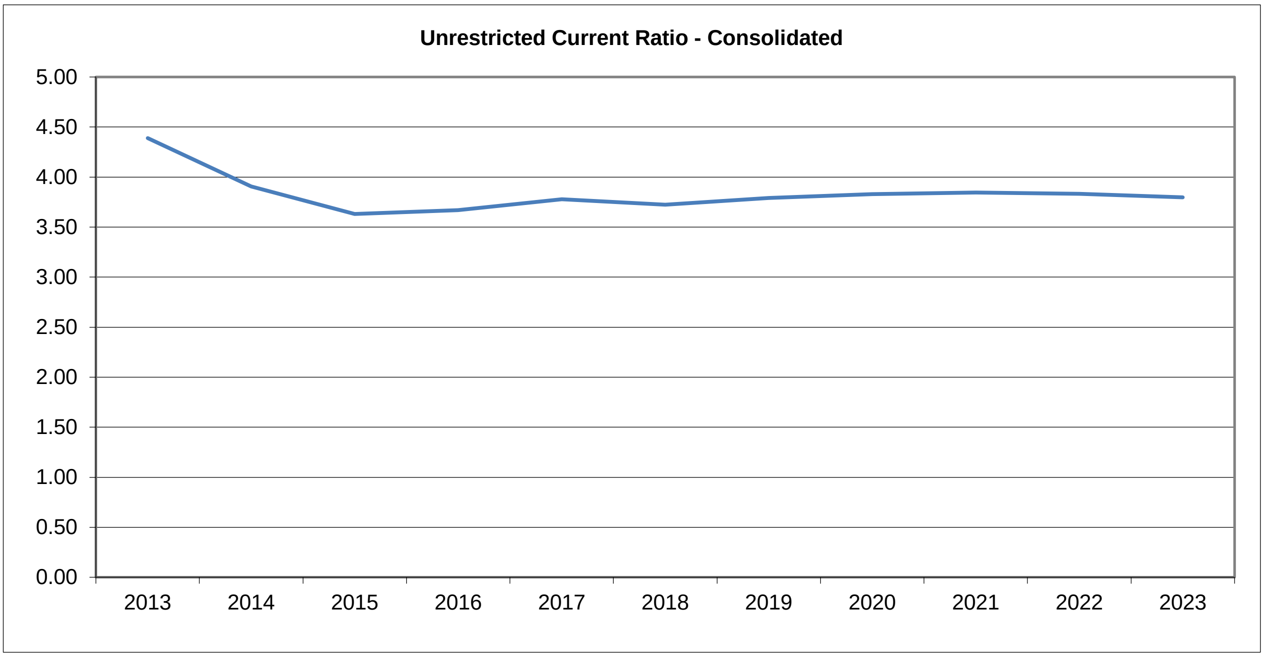
1) *Identical to Scenario 3, apart from Balance Sheet and Asset Renewal.*
2) *Reasonable operating position – Council is likely to achieve an operating surplus within three (3) years. However, the surplus would be less than the Special Rates Variation Scenario. The Income statement (consolidated) identifies an operating surplus from year three (3) onwards, increasing over the life of the plan. This is comprised of a water fund surplus of around $200,000, a sewer fund surplus increasing to around $200,000, the quarry fund (Glen Innes Aggregates) at around $150,000, and the general fund breaking even in the 2018/19/ or 2019/20 financial year. Therefore the operating position is very similar to that of the Special Rates Variation Scenario, apart from the additional 2% interest payable.*
3) *The break even general fund indicates that Council will achieve a more balanced position. This should be compared with the imbalance between the profitable water, sewer, and quarry funds and the unprofitable general fund the Base Case Scenario.*
4) *The risk of 'losing' the water and sewer fund to a County Council would result in a deteriorated position. However, the result of this loss would now not be as significant as in the Base Case Scenario, because the General Fund itself is also balanced.*
5) *The overall position suggests that Council is funding its depreciation, but is still not providing sufficient funding to address the infrastructure backlog (or the deferred infrastructure renewals).*

Balance Sheet

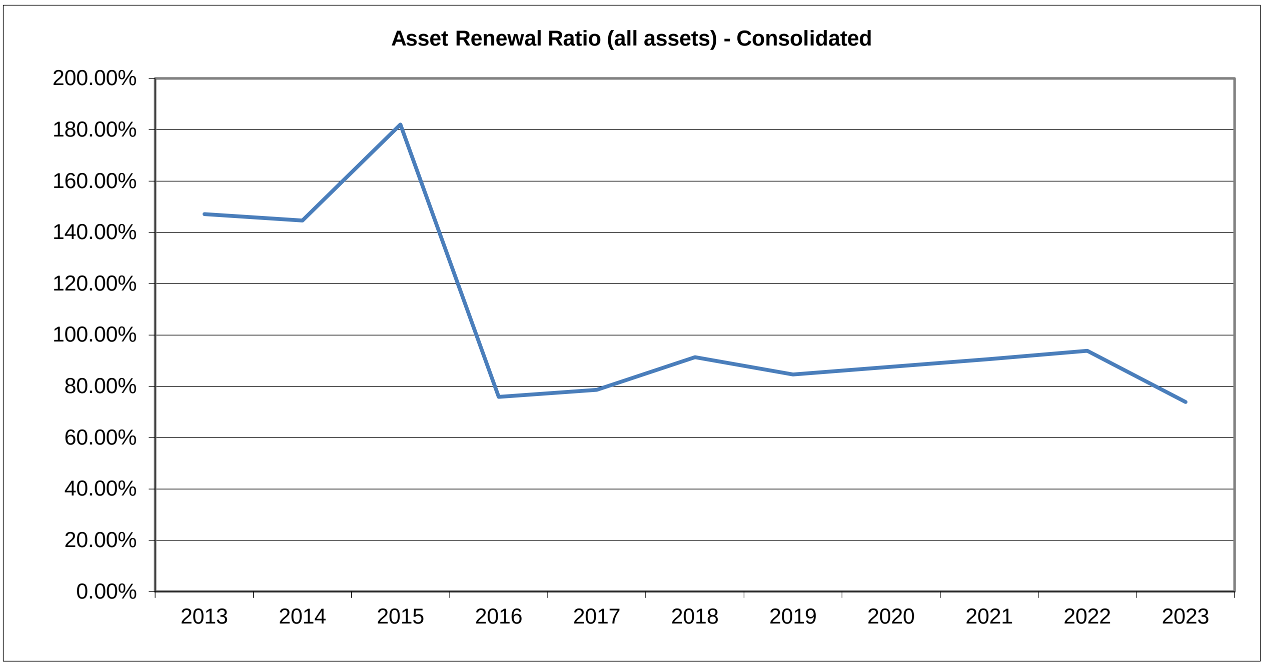
1) *Improving cash position – the consolidated balance sheet shows an improvement in Cash and Cash Equivalents from $13.687 million this financial year to $16.272 million in the 2022/23 financial year. This has come at the cost of asset expenditure, reducing on average per annum by $442,000 when compared with Scenario 2, 3 and 4.*

Key Ratios and Graphs

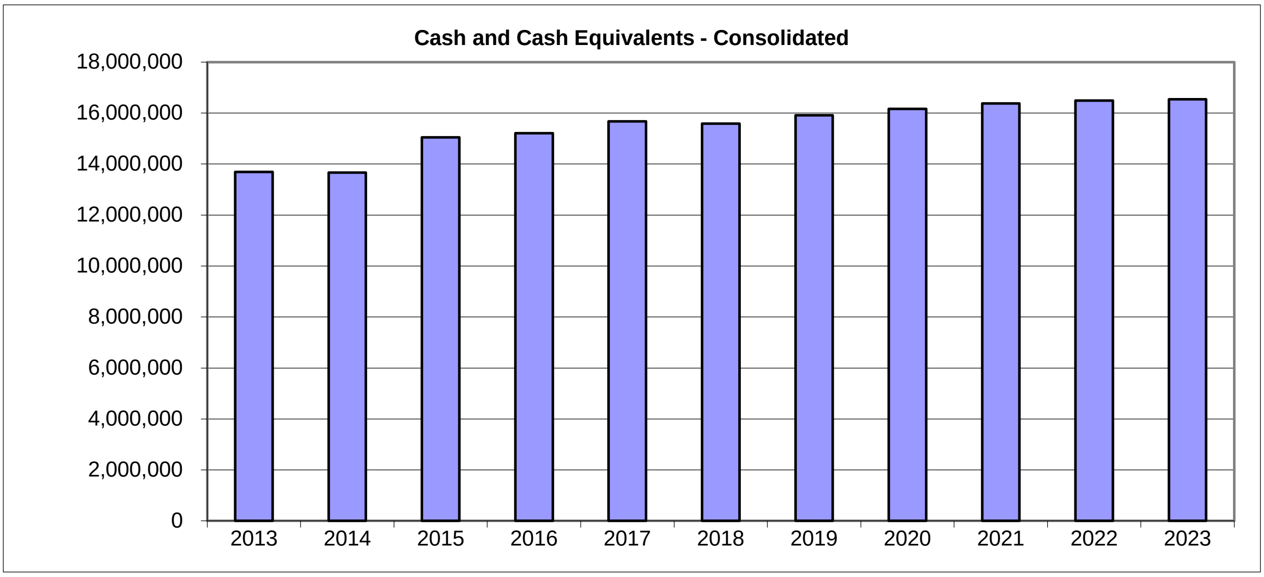
1) *The cash position is relatively stable (when taking into account increases in CPI); this is illustrated by the Unrestricted Current Ratio. This trend is satisfactory, particularly considering the TCORP requirement of 1.5 and Council's own benchmark of 2:1.*



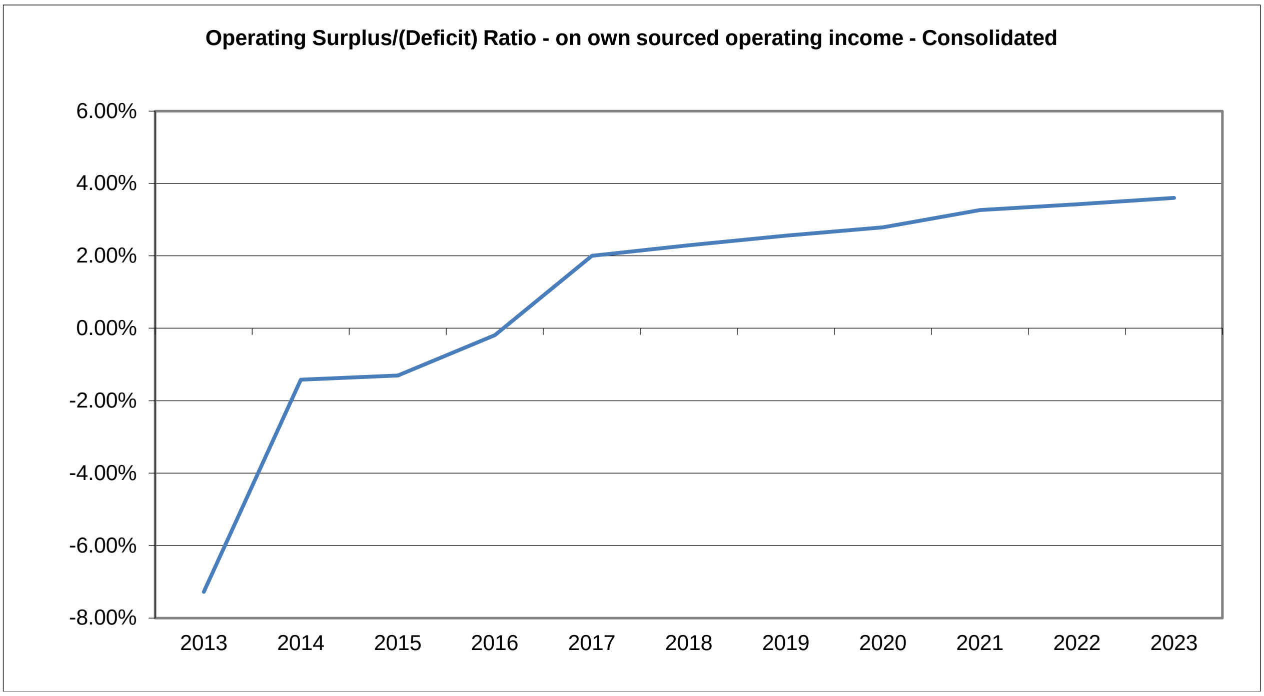
2) *Due to the increased capital works program, the Asset Renewal Ratio is sitting at a reasonably healthy position (between 80% and 90% for future years). Due to loan funded works, the renewals in the first few years are well above the required TCORP ratio of 100%. The ratio then deteriorates due to a reduction in capital expenditure because of additional loan repayments and bringing forward $4 million in capital expenditure.*



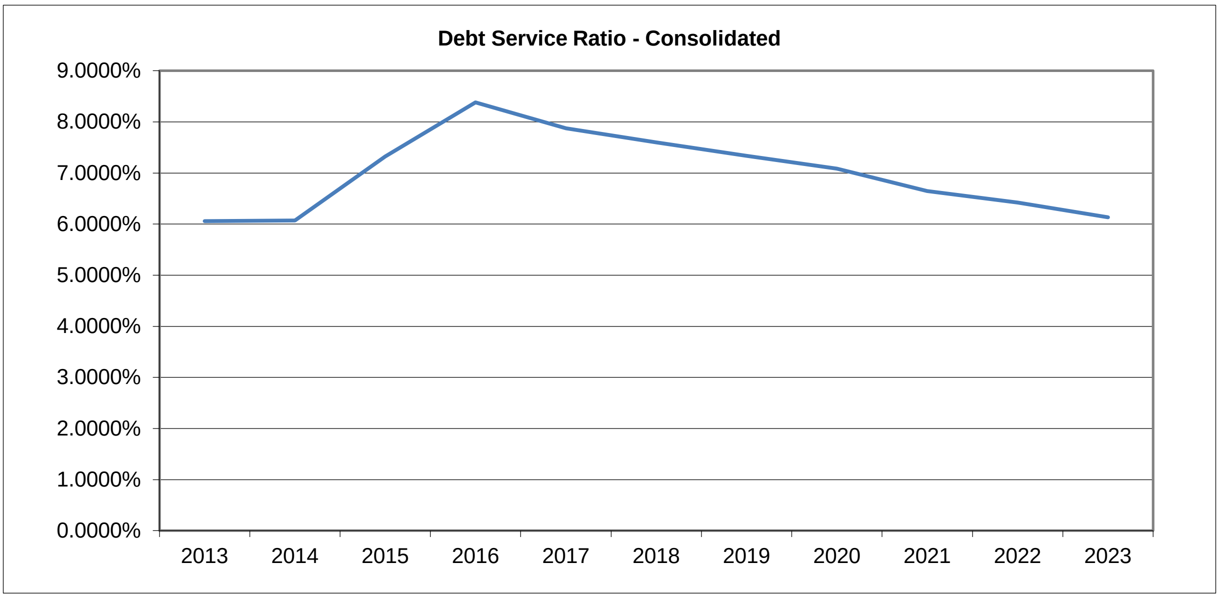
3) *The Cash and Cash Equivalents – Consolidated Graph indicates a satisfactory overall cash position.*



4) *The Operating Surplus/Deficit Ratio Graph indicates that the operating position improves quickly in the years that are affected by the SRV and that an operating break even position is achieved in three (3) years.*



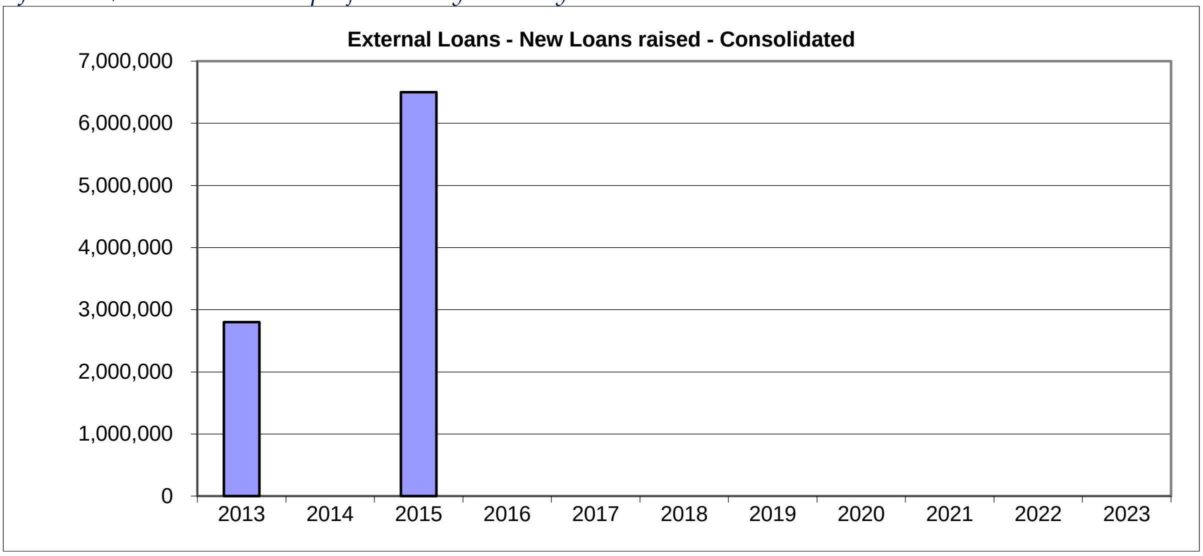
5) *The Debt Service Ratio indicates that the debt position should be satisfactory, and that Council would not overstretch itself by taking on this additional debt. A ratio below 10% is recommended but, in saying that, debt should never be taken on lightly.*



Loans and Major Projects

This is identical to Scenario 3 and 4. As indicated in the Base Case Scenario, the swimming pool projection has been increased from $1million to $1.5million. The renovations are to be paid from $1.5million in loan funding identified in the 2014/15 financial year. A further $1million (for which Council has received LIRS funding) will also be drawn in the 2014/15 financial year for the acceleration of various critical road projects.[3] *The only difference between the Special Rates Variation and this Scenario is the additional $4million in loan funding for road projects in the 2014/15 financial year.*

No further loans have been incorporated into the equation as had been done in the original plan, which had a further $1million in road projects every second year.



Conclusion

This scenario indicates a stable cash position, a satisfactory operating position, and a balance between the general fund and the remaining funds, combined with an acceptable asset renewal ratio. This scenario will address a number of critical infrastructure projects which are of present concern.

This scenario is an improvement on earlier scenarios, in that it addresses all of the key concerns raised. It would be ideal to meet the required renewal ratio; however, this should be balanced with the additional benefit of bringing forward urgent works.

This scenario is suggested as a reasonable option.

3.4 Capital expenditure review

Councils undertaking major capital projects are required to comply with the DLG's Capital Expenditure Guidelines, as outlined in DLG 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 as such 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 you to do a capital expenditure review in accordance with DLG Circular to Councils, Circular No 10-34 dated 20 December 2010?	Yes ☐	No ☒
If *Yes*, has a review been done and submitted to DLG?	Yes ☐	No ☐

4 Assessment criterion 2: Community awareness and engagement

In the DLG Guidelines, criterion 2 is:

> *Evidence that the community is aware of the need for and extent of a rate rise. This must be clearly spelt out in IP&R documentation and the council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness/input. The IP&R documentation should canvas alternatives to a rate rise, the impact of any rises upon the community and the council's consideration of the community's capacity and willingness to pay rates. The relevant IP&R documents must be approved and adopted by the council before the council seeks IPART's approval for a special variation to its general revenue.*

To meet this criterion, councils must provide evidence from the IP&R documents[4] that the council has:

[4] The relevant documents are the Community Strategic Plan, Delivery Program, Long Term Financial Plan and, where applicable, Asset Management Plan

- Consulted and engaged the community about the 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
- considered and canvassed alternatives to the special variation
- provided opportunities for input and gathered input/feedback from the community about the proposal
- considered the impact of rate rises on the community
- considered the community's capacity and willingness to pay.

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

- the proposed cumulative rate increases including the rate peg (including in both percentage and dollar terms)
- the annual increase in rates that will result if the special variation is approved in full (and not just the increase in daily or weekly terms)
- the size of any expiring special variation (see Box 4.1 below)
- alternative rate levels that would apply without the special variation
- proposed increases in any other council charges (eg, waste management, water and sewer), especially if these are likely to exceed the increase in the CPI.

More information about how community engagement might best be approached may be found in the DLG *Guidelines*, the IP&R manual, and our Fact Sheet *Community Awareness and Engagement*, September 2013.

4.1 The consultation strategy

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

Please provide relevant extracts of the IP&R documents that explain the council's engagement strategy and attach relevant samples of the council's consultation material.

METHODS OF PUBLIC/COMMUNITY CONSULTATION:
Council has implemented a number of public consultation methods to listen to the community and to communicate the message of the need for a special rates variation to address infrastructure conditions. The methods and the results thereof are discussed below:

1. **Public Exhibition of Business Paper, Long Term Financial Plan, Asset Management Plans and Delivery Program.**

In May 2013 (Resolution 5.05/13) Council requested senior staff to investigate the possibility of a special rates variation. As per usual practice the Business Paper was available publicly (in early May 2013). The possibility of a special rates variation was mentioned in the Glen Innes Examiner at that time (4 June 2013). Please refer to Attachment P.

As a result of the above resolution, Council staff undertook a review of the Long Term Financial Plan (LTFP). The revised LTFP was presented to Council on 28 November 2013. Prior to the Ordinary Council Meeting a Council workshop was held with Councillors to explain in depth the LTFP, the need for a SRV and the impact that it would have on Council's infrastructure backlog [slides from Presentation are at Attachment B]. Council adopted resolution 9.11/13, which in principle adopted Scenario 5 of the LTFP as its preferred option for consultation with the Community. This scenario included a special rates variation and applying for a further Local Infrastructure Renewal Scheme (LIRS) loan of $4 million. The revision of the LTFP was advertised widely, with the full Long Term Financial Plan – Discussion Paper and the associated report being advertised from mid November.

The revised LTFP was advertised both in the Glen Innes Examiner and on Council's website. Hard copies of the documents were available at Emmaville Post Office, Deepwater Post Office, the Library/Learning Centre, Town Hall Office in Glen Innes, the Glencoe Post Office and on Council's website. The revised LTFP including the SRV and LIRS loan has been on display from 2 December 2013 to 7 February 2014, in excess of the required 28 days. It should be noted the closing date for submission regarding the LTFP was 7 February. The closing date for submissions in respect of the SRV was also 7 February 2014.

Newspaper advertisements:

Long Term Financial Plan	Glen Innes Examiner	Page 2 / CWYC	05/12/2013
Long Term Financial Plan	Glen Innes Examiner	Page 2 / CWYC	12/12/2013
Delivery Plan	Glen Innes Examiner	Page 2 / CWYC	09/01/2014
Asset Management Plan (Transport)	Glen Innes Examiner	Page 2 / CWYC	09/01/2014
Community Consultation Forums	Glen Innes Examiner	Page 2 / CWYC	09/01/2014
Long Term Financial Plan	Glen Innes Examiner	Page 2 / CWYC	09/01/2014
Community Consultation Forums	Glen Innes Examiner	Page 2 / CWYC	16/01/2014
Long Term Financial Plan	Glen Innes Examiner	Page 2 / CWYC	16/01/2014
Delivery Plan	Glen Innes Examiner	Page 2 / CWYC	16/01/2014
Asset Management Plan (Transport)	Glen Innes Examiner	Page 2 / CWYC	16/01/2014
Community Consultation Forums	Glen Innes Examiner	Page 2 / CWYC	24/01/2014
Long Term Financial Plan (availability)	Glen Innes Examiner	Page 2 / CWYC	24/01/2014
Delivery Plan	Glen Innes Examiner	Page 2 / CWYC	24/01/2014
Asset Management Plan	Glen Innes	Page 2 /	24/01/201

(Transport)	Examiner	CWYC	4
Community Consultation Submissions	Glen Innes Examiner	Page 2 / CWYC	06/02/2014
Long Term Financial Plan (availability)	Glen Innes Examiner	Page 2 / CWYC	06/02/2014
Delivery Plan	Glen Innes Examiner	Page 2 / CWYC	06/02/2014
Asset Management Plan (Transport)	Glen Innes Examiner	Page 2 / CWYC	06/02/2014

The total number of advertisements regarding these documents, included by Council in 'Connecting with your Council' (CWYC), the regular forum and place for Council advertisements, was eighteen (18) times in six (6) papers, over a two (2) month period.

We have been advised by the Glen Innes Examiner that the circulation of the newspaper is approximately 3,500 issues per week (1,600 on Tuesday and 1,900 on Thursday). Articles were also often available on the local paper's website.

2. Staff Consultation/ Information Sessions

On 29 November 2013 and 5 December 2013, four (4) meetings were held with Council staff to discuss the need for and extent of a special rate variation. Approximately 120 staff members attended the information sessions that dealt with:

- Various external and internal reviews that have occurred across NSW Councils in the past 18 months and what their outcomes are;
- Show Comparisons of Glen Innes Severn Council (GISC) average current rate base versus our regional average and neighbours;
- An explanation of what a special rates variation is;
- An explanation of how the funds raised from a special rates variation will be spent;
- An explanation of how a LIRS loan differs from a standard loan and what the $4 million will be spent on; and
- What may happen if GISC does not apply for a special rates variation?

The sessions lasted for approximately one (1) hour and the majority of staff were supportive of the need for a SRV, particularly staff who dealt with asset maintenance on a regular basis [slides from this presentation are at Attachment D]. The intention of these sessions was to inform staff of the direction of Council and to ensure that staff were included in the process and could answer queries from the public if they felt confident, or knew whom to redirect them to.

3. Mail out to Ratepayers

On Friday 10 January 2014 Council printed 5,361 brochures which were mailed on 14 January to all of Council's ratepayers [a copy of the brochure is at Attachment F]. The brochures comprised of sixteen (16) pages explaining the SRV and associated process in full, while inviting ratepayers to complete a survey and take part in the Community Consultation process.

The topics covered in the brochure included:

- Introductory Letter by the Mayor;
- How our Rates work;
- Where do our rates come from now?
- What does Council spend money on?
- Is Council poorly managed or is Council broke?
- How do our financial and asset management ratios compare?

- What are our current financial / infrastructure ratios?
- What are our projected financial / infrastructure ratios for 2023?
- What is rate pegging?
- What is a special rate variation?
- How do our rates compare?
- Why is Council suggesting a special rate variation?
- If Council is in a good position why do we need a SRV?
- How much is Council asking for?
- Is Council going to raise any other fees?
- Why should you support a SRV?
- Why spending the money on roads and bridges matters;
- What is Council doing currently as part of its Continuous Improvement Program?
- What if there is no SRV?
- How to have your say? and a
- (tear out page) Community Survey.

There were various options for the Community to "have their say"; these options were identified in the brochure, which included six (6) community consultation forums, stakeholder meetings on request, letters and submissions as well as the abovementioned survey.

The Brochure was extensive and informative to ensure that the process and reasons behind it were understood. Council 'followed up' the brochure with a number of press releases and further explained the press releases in the Community consultation forums.

A copy of the Brochure is attached as Attachment F.

4. Press Releases and other Media Coverage:

There has been a reasonable amount of media coverage regarding this issue. The main coverage has been in the Glen Innes Examiner, The Glen Innes Examiner website, Council's website and on radio stations such as 2NZ and GemFM.

Council's main aim in respect of media coverage was firstly to make the Community aware of the meetings and consultation process, and secondly to follow up on the mail out and Community Consultation forums to succinctly explain the need and extent of a special rates variation.

Media Releases:

Council issued three (3) media releases and also met with Glen Innes Examiner reporters on a number of occasions to discuss and clarify the issues, to ensure that the Community was getting accurate and timely information.

The three (3) media releases covered the following:

a) **Local Infrastructure Renewal Scheme –** this release re-iterated the need for a LIRS loan and why the investment in bridges through LIRS funding is a sound financial decision.

b) **Special Rate Variation –** this release explained the situation Council is in and the need for and extent of the special rates variation.

c) **Special Rate Variation (New Proposal) –** After the first two (2) Community Consultation forums in Red Range and Glencoe the main theme that arose was the equity of distribution between Farmland and Residential ratepayers, and the fact that an increase for Residential ratepayers would be shared over more people and therefore would be easier to bear. An adjusted proposal was prepared, and a press release was written to release this additional information to the community and to identify the change of this suggested re-distribution. This is discussed further below.

A copy of each of the releases is attached as Attachment J. Media releases were published in the Glen Innes Examiner newspaper and in some cases also appeared on the Examiner's website.

Radio Coverage:
There has been radio news coverage of the Community Consultation forums as well as the release of the new proposal, adjusting the distribution between farmland and residential rates. This radio coverage was on both GemFM and 2NZ; the news coverage was reasonably extensive over January and early February 2014.

The listening audience for GemFM and 2NZ is in the order of 40,000 in the area, with a significant number of those listeners presumed to be in the Glen Innes Severn Local Government Area. Therefore, the news stories which invited Community members to attend and noted the extent of the original and new special rate variation proposals would have reached a large number of listeners in time to allow feedback to be provided.

GemFM and 2NZ did not provide an estimate of the total listeners in the LGA but noted that the number of advertisers from the GIS LGA was significant, suggesting that it was a well patronized radio station in the area.

Council's Website:
As part of the Community Consultation Strategy articles were published on Council's website, as well as a link to all documentation available and the locations where hard copies of the documents were available. The documents identified for public consultation were also available at Glencoe Post Office, Glen Innes (Town Hall and Library/Learning Centre), Emmaville Post Office and Deepwater Post Office for the periods indicated below.

The articles and information that were available on Council's website, for particular periods are listed below:

Topic	Article	Period	
		From	To
Long Term Financial Plan	Council Seeks Residents Input	29/11/2013	07/02/2014
Community Consultation Forums	Invitation to attend Community Consultation Forums on SRV	09/01/2014	03/02/2014
Alternative Distribution SRV	Council considers alternative distribution of SRV	24/01/2014	07/02/2014
SRV	Council seeks input on proposed SRV	12/01/2014	07/02/2014
Asset Management Plan and Delivery Program	Public Display of Plans on website	20/12/2013	11/02/2014

The visitation of Council's website for the period in question (29 November 2013 to 7 February 2014) has been 4,334 visits with 2,813 unique visitors (different people). It should also be noted that 54.9% were new visitors. This suggests that during this period there were a large number of new visitors.

5. Community Consultation Forums

As with the majority of Council's community consultation, forums were held at townships around the Local Government Area (LGA) to present the information in an easy to understand and reasonably brief format. The presentation was approximately half an hour, with an introduction from the Mayor and General Manager, and then a presentation from the Director of Corporate and Community Services, the Manager of Finance and Director of Infrastructure Services (in that order) [speeches can be viewed at Attachment G]

The presentations provided an overview of the current situation and need for a SRV, specific topics included:

- Council's Integrated Planning and Reporting Framework and the LTFP;
- Significant backlog on infrastructure renewals in all rural and regional Councils;
- The revised decrease of almost $900,000 in grant funding from the Commonwealth Government;
- The Special Rate Variation as part of the broader financial strategy;
- How Council is, and will continue to, tighten its own belt;
- What will happen if a SRV is not approved;
- The LIRS program and how it fits into Council's financial strategy;
- Why the LIRS program is a sound financial decision;
- LIRS funding is cheaper than maintaining a deteriorating asset;
- The state of our assets, in particular bridges and roads;
- The extent of the backlog and shortfall in annual expenditure; and
- Effect on the state of our assets (Base Case compared with Scenario 5).

Upon completion of the presentations a question and answer session was held, which in most cases lasted around two (2) hours. These sessions were informative, and there were varying views from full support of the SRV to full opposition. Some forums were heated (in particular the final Town Hall, and Emmaville meetings) but earlier meetings were reasonably understanding of the need for a SRV.

The estimated duration and attendance at these consultation meetings is as follows:

Location	Date and Time	Venue	Estimated Duration	Estimated Attendance
Glencoe	10am Monday, 20 Jan	Glencoe Hall	2:30	28
Red Range	7am Tuesday, 21 Jan	Red Range Hall	2:30	15
Deepwater	7am Wednesday, 22 Jan	Deepwater Hall	2:30	27
Glen Innes	2pm Wednesday, 22 Jan	Library	2:30	34
Emmaville	7am Thursday, 23 Jan	Emmaville Hall	3:00	39
Glen Innes	7.30pm Monday, 3 Feb	Glen Innes Town Hall	2:30	220
Total Estimated Attendance				**363**

It should be noted that the final Glen Innes Town Hall meeting had a different format to the initial five (5) consultation meetings. The aim of the final meeting was to provide more question and answer time after a brief presentation from the Mayor and General Manager.

6. Stakeholder Meetings

Although advertised, no requests from community groups were received.

7. Letters and Submissions [part of Attachment K]

A number of letters and submissions were received in respect of the special rates variation:

Submissions	No. Received
Long Term Financial Plan and SRV Submissions	35
Delivery Plan Submissions	0
Asset Management Plan (Transport) Submissions	0

The responses to re-occuring arguements from the submissions can be found on pages 14 to 18 of the report that went to Council in Attachment K.

4.2 Alternatives to the special variation

Indicate the range of alternatives to the requested special variation that the council considered and how you engaged your community about the various options.

The alternatives to the special rates variation were discussed as part of the Community Consultation process. A number of these potential 'alternatives' were adopted as part of the overall strategy as they were not sufficient in themselves to prevent the need for a SRV but reduced the quantum of the increase. The alternatives considered and implemented are discussed in detail under 3.2 Alternative Funding options above. Further, five (5) scenarios were considered as part of the LTFP and two (2) were presented to the public as part of the Asset Management Plan (Transport) as well as all the Community Consultation procedures discussed under 4.1 the Consultation Strategy above.

Further alternatives that were discussed (and adopted) were the alternative suggestion in respect of the breakdown of the rate increase. The alternative increase discussed under 4.4 Considering the Impact on Ratepayers below was ultimately adopted by Council after significant feedback suggesting that the alternative increase allocation was more appropriate.

Furthermore, the most significant consultation that occurred in respect of service levels is detailed in Attachment N and O detailing the consultation in regarding to the Road Hierarchy and Open Spaces Hierarchy.

The survey [Attachment F] and the associated results [part of Attachment K] has also provided Council with significant feedback in respect of what services Council should increase, maintain or decrease. However, in respect of the SRV the majority of respondents indicated that Council should maintain or increase services not decrease them. Similar responses were received for the condition of roads and bridges and these are discussed further under 4.3 Feedback from the Community Consultations below.

4.3 Feedback from the community consultations

Summarise the outcomes of, and feedback from, your community engagement activities. Such 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 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 special variation during the engagement process, the application should set out the views expressed in those submissions. It should also identify and document any action the council has taken, or will take, to address issues of common concern.

The estimated duration and attendance at these consultation meetings is as follows:

Location	Date and Time	Venue	Estimated Duration	Estimated Attendance
Glencoe	10am Monday, 20 January	Glencoe Hall	2:30	28
Red Range	7am Tuesday, 21 January	Red Range Hall	2:30	15
Deepwater	7am Wednesday, 22 January	Deepwater Hall	2:30	27
Glen Innes	2pm Wednesday, 22 January	Library and Learning Centre	2:30	34
Emmaville	7am Thursday, 23 January	Emmaville Hall	3:00	39
Glen Innes	7.30pm Monday, 3 February	Glen Innes Town Hall	2:30	220
Total Estimated Attendance				**363**

RESULTS OF CONSULTATION AND COUNCIL RESPONSE TO RE-OCCURRING ARGUMENTS:
Although a number of submissions were received, in large part the submissions had re-occurring arguments [as Attachment K]. The main concerns raised were:

a) <u>The perceived inequity between Farmland and other ratepayers</u>
The original proposal had a SRV suggested distribution for Residential ratepayers 10% increase above the rate peg for one (1) year, and an increase of 10% above the rate peg over three (3) years for Farmland rates. At the community forums it was argued that Council was inequitable in its application of the distribution. Hence Option Two (2) was prepared, where the burden of additional rate revenue is spread differently to alleviate some of the burden of Farmland ratepayers and spread this to Residential ratepayers. Under this proposed distribution Residential ratepayers would have an increase of 10% above the rate peg for the 2014/15 year, and a five percent (5%) increase above the rate peg in the following year. Farmland ratepayers would have an increase of 10% above the rate peg over two (2) years, and an increase of five percent (5%) above the rate peg in the third year (instead of another 10%). This is discussed further below under "**Discussion regarding alternative proposals on breakdown of SRV increase:**"

b) <u>The exclusion of Business and Mining rates from the increase</u>
Mining: The impact of including mining would be minimal and based on the amount outstanding the actual cash return would be negligible. Please consider in this regard that the total amount outstanding from the three (3) mining properties is $12,623.96 accounting for 96.75% of total rates raised in the last financial year. Therefore mining can be reasonably excluded.

The argument was also raised that the mining rate should be raised now, in case mining is commenced within the area and this results in a loss of rates. This is not a valid concern as it is expected that the mining application process will provide Council with sufficient notice to be able to address mining rates prior to any new mining in the area.

Business rates: The impact of imposing additional rates on businesses would result in an immaterial reduction in rates across the board. It is expected that an increase across the board would still result in a compounded increase over three (3) years of 29.62% (compared with an increase of 25.87% for Residential and 38.05% for Farmland based on Option 2).

In fact, it is believed that increasing business rates would result in more inequity for the following reasons:

- Business ratepayers already pay other fees such as trade waste charges which result in a higher overall bill (it should be noted that a basic comparison between Farmland, Business and Residential based on a total levy including annual charges suggests that business ratepayers pay $2,363.44 per annum compared with $1,516.11 for Residential and $2,132.25 for Farmland);
- Business rates are very comparable to the regional average and are believed to be reasonable when compared based on town size within the regional average comparison;
- As a general rule, the majority of business ratepayers also pay residential or farmland rates and therefore increasing business rates will result in inequity in respect of ability to pay;
- Arguments have been raised that there are ratepayers who own multiple properties. However, it is expected that these properties are rented out and therefore still 'use' the facilities provided by Council;
- Argument has been raised that a large number of business owners are not from the Glen Innes Severn area. This is not justified with an estimated 73% of business properties owned by residents of the Glen Innes Severn Area. In this regard it should be noted that there is also no ability under the *Local Government Act 1993* to target ratepayers from large organisations.

c) <u>Trust and Wastage (whether the money will be spent on roads)</u>

Trust and wastage are a paramount consideration for the community and always will be. Council deals with community money and this results in a significant amount of public scrutiny on how funds are spent. At public meetings it is often hard to refute such accusations individually, as the particular situations may not yet have been brought to Council's attention, and therefore have not been investigated.

Council will continue to retain a strong focus on reducing wastage or perceived wastage. The only way to do so is to continuously focus on improved efficiency and productivity within Council.

d) <u>The number of administration staff and administrative inefficiency</u>

The number of administrative staff and administrative efficiency (or cost) has been raised on a number of occasions. Council's response remains the same, based on the Division of Local Government Comparative figures Council's administrative costs per capita are approximately half that of the group average for similarly sized Councils. Council continually strives for improvements in this area (along with all others).

In line with Councils commitment to continuous improvement, and in response to the feedback provided by the Community Council has also undergone a number of internal reviews, including a light and heavy plant review, establishing a Risk Management Committee and setting the stage for an internal audit committee. It is expected that these reviews as well as the establishment of a Risk Management Committee and into the future an internal audit function will provide advice for improvement that will lead to efficiencies within Council. It is also expected that these reviews will provide Council with sufficient information to combat the community view of wastage and lack of trust. It should be noted that the initial review of light vehicles resulted in Council reducing the fleet by ten (10) vehicles indicating that Council is serious about these reviews and gaining efficiencies.

e) <u>The need for Council to source more grant funding from State and Federal Governments</u>

The need for additional grant funding from State and Federal Governments is appreciated and fully supported by Council. The difficulty with placing full reliance on such increases is that they are, by their very nature, unreliable. For example the Federal Government Assistance Grant has continued to decrease as a proportion of Federal Government revenues. (This graph is highlighted on page 10 in the distributed brochure attached as Attachment F).

The main emphasis on Council has been to apply for additional grants or to lobby the State and Federal Government for additional grant revenue. It should be noted in response to this that Council has continued to do so in every avenue reasonably available to it. This is the primary reason Council expected an increase in grant revenue in earlier years, which has not materialized.

Therefore continuing to argue that the State and Federal Government will or should give Council additional money is an unrealistic hope.

f) <u>Defer CBD infrastructure upgrade and use the funds for road and bridge infrastructure</u>

The CBD infrastructure upgrade is funded by LIRS funding from the State Government (therefore it is a grant subsidised interest loan at 1.46%). Council is bound to use this money for the purpose for which the State Government approved it. If Council does not use the money for this purpose Council would lose the subsidy of 4% and thereby pay 5.46% on the money borrowed. Therefore, in truth, Council does not have the ability to redirect these funds to other projects. However, one should note that the CBD works is for an infrastructure upgrade with the primary purpose being to upgrade infrastructure which would otherwise require replacement in future years. Therefore funding these works through grant subsidised loans is a sound financial and asset management decision.

g) <u>That Council is too top heavy and has too many managerial staff</u>

Council has to deal and comply with over 100 different sets of legislation (that have direct responsibilities and/or obligations as a result). Council fulfils over 108 different functions in our Local Government Area. Council also has to adhere and provide information back to various State and Federal Departments regarding approximately 1,300 different sets of performance and compliance measures. In addition to this, Council is expected to comply with 513 different Better Practices Guidelines – on which it is audited/assessed.

h) <u>That Council should not pay attention to the requirements of the State Government and that we should "do our own thing"</u>

Clearly, this argument/suggestion is illegal. The *Local Government Act 1993* makes provision for a Council Charter in Section 8 – identifying 14 requirements to which a Council should adhere. It is noteworthy that it is expected of a Council "to bear in mind that it is the custodian and trustee of public assets and to effectively plan for, account for and manage the assets for which it is responsible". Section 232 of the abovementioned Act further deals with the role of a Councillor. It is noteworthy that it is highlighted in subsection 1 (dot point 3) that it is a role of a Councillor "to participate in the optimum allocation of the Council's resources for the benefit of the area". Council staff falls under the provisions of the Local Government (State) Award 2010. Salary and wage increases are negotiated centrally by the employer organisation and unions, and we have to implement the outcomes – with all the other provisions of the Award. The current Council has the responsibility to make the hard decisions now, in order for our community (with its Council) to be financially sustainable in the longer term, with serviceable assets – especially our local roads network. This is not a process that Council has taken lightly; however the Management Executive and senior staff at Council are convinced that the SRV proposal is a sound and responsible management strategy for the longer term.

i) <u>That Council is not doing anything to save money or become more efficient</u>

Council has set itself the goal of saving in the order of $650,000 each year by implementing and pursuing the following initiatives:

- Sale of properties not necessary for operational purposes: Tindale Units ($18,000), Highwoods ($20,000), Garden Court ($25,000), Potters Parade Land ($11,000), Abbott Street Land ($25,000), AAFT Airport ($200,000). Subtotal - $299,000;
- Stricter Controls in Overtime and Time in Lieu: $65,000;
- Non-replacement of staff on leave: $50,000;
- Reduction in "Acting in Higher Grades": $24,000;
- Cutting 10 vehicles from light fleet: $50,000;
- Shutting down of Freezer Rooms: $20,000;
- Grand Total - $508,000.

Council does have a focus on continuous improvement, and will continue to identify further savings/efficiencies. Specifically, gains have been made with regards to procurement practices. A $60,000 saving is expected to be achieved shortly from Council's in-house printing, and a further $30,000 for a renegotiated telephone contract.

There is however still some work to be done. Further savings of $50,000 to $60,000 per year need to be identified. Council acknowledges that there is room for improvement in some of its service delivery and operations; everything is not perfect (and probably never will be!). However, to argue that "cutting out all the waste" is miraculously going to provide us with an additional $850,000 to $950,000 per annum is just not rational thinking – with all due respect.

j) <u>That Council erred in the way it calculated the average rates within the region</u>

At the final community forum meeting at Town Hall, a hand-out document [as Attachment H] with the heading "Farmland Rate Comparison 2013/14", clearly shows that no matter how one calculates the regional rate average, including Glen Innes or excluding Glen Innes, including or excluding Tenterfield, including or excluding irrigation and intensive farming areas from the equation –a discrepancy still remains between the Glen Innes Severn Farmland Rating and the regional average – with our rates being lower. There is therefore merit in Council targeting the Farmland rating category. Council has put this difficult decision regarding a SRV off for a few years, but it cannot wait any longer.

<u>Survey Findings:</u>

The results of the survey are attached as [as Attachment K] for consideration.

Statistical significance: Of the 5,361 surveys sent to Ratepayers 336 were returned. This represents a return of 6.2%. Based on this response level, at a 95% confidence level, the margin of error would be in the order of 5.5%. This means we can be 95% confident that the result of the survey will be within a tolerance of 5.5% of the result indicated in the survey, which is subject to the possibility of multiple or skewed results.

Errors/Discrepancies: Due to the anonymous method used for the survey, it is possible that one (1) individual could have completed a large number of surveys, which would skew the results; hence the survey should be used as guidance only.

Another matter to consider is that the survey targeted primarily ratepayers (through the ratepayer only mail out), who may or may not be local and therefore those individuals who do not pay rates, but use Council services, have not really been included.

Furthermore, of the surveys received, some respondents did not answer all questions.

Survey Results:

Question 1: Discretionary services
The survey requested the public to identify services to Stop, Reduce, Increase and Maintain. It should be noted that the 'Maintain' was added by rate payers. Of the eleven (11) services identified 1,880 responses indicated that the services identified should be increased or maintained, while 1,120 indicated that the services should be stopped or reduced. Of the services identified only Rural Halls, Village Libraries and Festivals had more respondents suggesting that the service be cut or reduced, while all other services had more respondents wishing to maintain or increase the service. Public Toilets, the Glen Innes and Emmaville Swimming Pool and the Saleyards had the most support (based on numbers *'for'* and *'against'*).

Question 2 to 9: Condition and Importance of Roads
The survey results identified that the condition of infrastructure assets (bridges, town and village streets and unsealed and sealed rural roads) was important to ratepayers, with a ranking of over four (4) out of five (5) for all categories.

In respect of the condition of roads, the ranking was from one (1) through to (6) with one (1) being very poor and six (6) being excellent.

The results were as follows:

Infrastructure Asset	Condition (1 to 6)	Importance (1 to 5)
Rural Sealed Roads	2.68	4.07
Rural Unsealed Roads	2.44	4.07
Town and Village Streets	2.74	4.05
Bridges	2.95	4.03
Average	**2.70**	**4.06**

The results indicate that the conditions of assets were important, and that the condition was marginally below Fair with a ranking of 2.7.

Question 10: Support for a SRV to pay for Roads, Bridges and Footpaths:
The support for a SRV to pay for Roads, Bridges and Footpaths on a rating of one (1) for fully disapprove through to five (5) fully approve is 2.61. This suggests that there is partial support for a SRV to pay for Roads, Bridges and Footpaths.

Question 11: Support for a SRV Residential and Farmland:
The true result of this particular question is more difficult to determine, due to the ability to suggest an alternative percentage. Therefore some discretion has been used to determine whether the alternative suggestion is an increase above the rate peg or no increase at all.

The results have been broken up into four (4) categories, full support for the proposal, support for a SRV but not for the particular proposal, support for an SRV, and full disapproval.

Farmland:

Full Approval	88	28.12%
Approval for SRV but not Council's proposal	44	14.06%

Approval for an SRV	132	42.18%
Full Disapproval	181	57.82%
Total	**313**	**100.00%**

Residential:

Full Approval	115	36.98%
Approval for SRV but not Council's proposal	30	9.64%
Approval for an SRV	145	46.62%
Full Disapproval	166	53.37%
Total	**311**	**100.00%**

It should be noted that due the margin of error of 5.5% (+/-) based on the sample size, the survey results are very close.

Question 13a: If no SRV what services should be cut:
The results of this question are self explanatory. However, it should be noted only 60% of survey respondents answered this question. This suggests that there were either 40% in favour of the service or apathetic to its existence. The most suggested services for cutting were the Events and Festivals, Tourism and the Village Libraries. However, it is suggested that these results are not conclusive.

The Deepwater, Emmaville and Red Range Landfill appear to be the most popular services of those identified to remain.

Question 13b: Comments:
The comments provided by respondents on the surveys are attached as Attachment K.

4.4 Considering the impact on ratepayers

Indicate how the council assessed the impact of the special variation on ratepayers, and where this was addressed within the community awareness and engagement processes. Where the impact will vary across different categories and/or sub-categories of ratepayers, the council should consider the circumstances of the various different groups.
The revised Long Term Financial Plan included five (5) scenarios as follows:
Scenario 1 – Base Case Scenario;
Scenario 2 – Implementation of a Special Rate Variation for three (3) years;
Scenario 3 – Special Rates Variation and Local Infrastructure Renewal Scheme (LIRS) Loan;
Scenario 4 – Special Rates Variation and Unsubsidised Loan;
Scenario 5 – Special Rates Variation and Local Infrastructure Renewal Scheme (LIRS) Loan and Reduced Capital Expenditure.

On 28 November 2013, Council carried Resolution 9.11/13 2, which in principle adopted Scenario 5 of the LTFP as its preferred option for consultation with the Community.

Scenario 5 included a suggested breakdown of the rate increase, based on the apparent variance between the Farmland rating regional average and the Glen Innes Severn LGA farmland rating. The suggested variation based on this 'average based' comparison resulted in Council proposing to increase Farmland rates more than the increase suggested for the Residential rate (10% increase above the rate peg over three (3) years for Farmland compared with a 10% increase above the rate peg for one (1) year for Residential rates).

At both forums held at Glencoe (20 January) and Red Range (21 January) it was argued Council had been inequitable in its application of the distribution. At that point in time, the Mayor, in terms of Section 226 of the *Local Government Act*, exercised the policy-making function of the governing body in-between meetings of Council and requested that the General Manager prepare another distribution under Scenario 5, where the burden of additional rate revenue is spread differently from the original proposal. The request was with specific emphasis on alleviating some of the burden of Farmland ratepayers and spreading this to Residential rate payers. The net effect of this was to transfer five percent (5%) of the farmland increase in year three (3) to residential ratepayers in year two (2).

The impact on revenue and the increase in rates is indicated below. Option one (1) was the original proposal, while Option Two (2) is the amended secondary proposal:

Option 1: Special Rate Variation (Original Proposal)

Rates category	YEAR					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Residential (RATE PEG) (Average)	545.63	565.27	584.49	597.93	618.26	639.28
Special Rate Variation	545.63	565.27	584.49	656.38	678.70	701.78
Variance	-	-	-	58.45	60.44	62.49
% Increase				10.00%	0.00%	0.00%
Rate Peg %		3.6%	3.4%	2.30%	3.40%	3.40%
Compounding Increase				12.30%	16.12%	20.07%
Assessments	3,636	3,636	3,636	3,636	3,636	3,636
Revenue Raised	-	-	-	212,520.56	219,746.26	227,217.64
Farmland (RATE PEG) (Average)	1,875.85	1,943.38	2,009.45	2,055.67	2,125.56	2,197.83
Special Rate Variation	1,875.85	1,943.38	2,009.45	2,256.61	2,559.00	2,901.90
Variance	-	-	-	200.95	433.44	704.08
% Increase				10.00%	10.00%	10.00%
Rate Peg %		3.6%	3.4%	2.30%	3.40%	3.40%
Compounding Increase				12.30%	27.35%	44.41%
Assessments	1,016	1,016	1,016	1,016	1,016	1,016
Revenue Raised	-	-	-	204,160.12	440,373.38	715,340.31
TOTAL ADDITIONAL REVENUE PROPOSED				416,680.68	660,119.64	942,557.95

Option 2: Special Rate Variation (Further Proposal)

Rates category	YEAR					
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Residential (RATE PEG) (Average)	545.63	565.27	584.49	597.93	618.26	639.28
Special Rate Variation	545.63	565.27	584.49	656.38	711.52	735.71
Variance	-	-	-	58.45	93.26	96.43
% Increase				10.00%	5.00%	0.00%
Rate Peg %		3.6%	3.4%	2.30%	3.40%	3.40%
Compounding Increase				12.30%	21.73%	25.87%
Assessments	3,636	3,636	3,636	3,636	3,636	3,636
Revenue Raised	-	-	-	212,520.56	339,076.56	350,605.16
Farmland (RATE PEG) (Average)	1,875.85	1,943.38	2,009.45	2,055.67	2,125.56	2,197.83
Special Rate Variation	1,875.85	1,943.38	2,009.45	2,256.61	2,559.00	2,773.95
Variance	-	-	-	200.95	433.44	576.13
% Increase				10.00%	10.00%	5.00%
Rate Peg %		3.6%	3.4%	2.30%	3.40%	3.40%
Compounding Increase				12.30%	27.35%	38.05%
Assessments	1,016	1,016	1,016	1,016	1,016	1,016
Revenue Raised	-	-	-	204,160.12	440,373.38	585,343.19
TOTAL ADDITIONAL REVENUE PROPOSED				416,680.68	779,449.94	935,948.36

The impact on total revenue raised is immaterial. Therefore the primary consideration was the imposition on ratepayers and the equity associated with this new proposal.

Farmland Rates and the Regional Average:
As mentioned above, the original proposal was on the basis of a comparison of Farmland and Residential rates against what could be considered the Regional average.

A further comparison made on the ad-valorem and base amount method (farmland only) has provided a similar result, suggesting that indeed there is a variation between the GISC farmland average and the regional average.

A summary of the two (2) methods indicates the following (please note that the latest DLG figures (2011/12) were used in respect of the original comparison):

Method of Calculating variance	GISC Farmland Rate	Regional Average Farmland Rate	Variance per Assessment	No. of Assessments	Total Variance
Average Rates method (original method) (2011/12)	1,875.85	2,599.15	723.30	1,016	734,872.80
Ad-valorem + base amount method (2013/14)	2,057.89	2,920.48	862.59	1,016	876,391.44

When making the comparison please review the actual calculation sheets; different years are used and not all of the Councils were included in the Average Rates method. It is not expected that this would materially impact the outcome.

It was recommended that Council considered both options. However, given the feedback provided in all subsequent community consultation forums it was recommended that Council adopted option 2 as the preferred option. It was further recommended that Council consider the impact per ratepayer, effectively the dollar increase per person. The reason option 2 was recommend to Council was that the impact on the increase per person by imposing the increase on residential ratepayers is spread and therefore, in respect of equity and ability to pay, this was likely easier to bear.

Ability to pay as indicated by outstanding accounts/ unpaid amounts:

In regard to ability to pay, the January 2014 rates report shows the overdue percentage for each rating category (as a proportion of rates raised for each category for this financial year):

Residential	$243,078.47	4.11 %
Business	$ 42,418.22	4.33 %
Farmland	$ 34,477.74	1.53 %
Mining	$ 12,623.96	96.75 %
Non-Rateable	$ 19,456.72	12.14 %

It is clear that the Farmland rating category is lower than all other categories for unpaid amounts. However, in general, it should be noted that the total overdue amount is now lower than in earlier years, with the 2013/14 result of 3.82% being significantly lower than the June 2007 result of 12.50% (which was even higher in earlier years).

Council has a policy provision for agreements to pay by arrangement (Council's Debt Recovery policy, Attachment L). In fact, of the outstanding amounts identified above, a significant portion is on payment arrangements. Furthermore, there are currently 158 ratepayers who have entered into arrangements for the payment of their accounts, totaling $220,754.34.

Based on the information above Scenario 5 of the LTFP combined with Option 2 was adopted by Council.

The reasons behind excluding Business and Mining rates from the increase:

Mining: The impact of including mining would be minimal and based on the amount outstanding the actual cash return would be negligible. Please consider in this regard that the total amount outstanding from the three (3) mining properties is $12,623.96 accounting for 96.75% of total rates raised in the last financial year. Therefore mining can be reasonably excluded.

The argument was also raised that the mining rate should be raised now, in case mining is commenced within the area and this results in a loss of rates. This is not a valid concern as it is expected that the mining application process will provide Council with sufficient notice to be able to address mining rates prior to any new mining in the area.

Business rates: The impact of imposing additional rates on businesses would result in an immaterial reduction in rates across the board. It is expected that an increase across the board would still result in a compounded increase over three (3) years of 29.62% (compared with an increase of 25.87% for Residential and 38.05% for Farmland based on Option 2).

In fact, it is believed that increasing business rates would result in more inequity for the following reasons:

Business ratepayers already pay other fees such as trade waste charges which result in a higher overall bill (it should be noted that a basic comparison between Farmland, Business and Residential based on a total levy including annual charges suggests that business ratepayers pay $2,363.44 per annum compared with $1,516.11 for Residential and $2,132.25 for Farmland).

Business rates are very comparable to the regional average and are believed to be reasonable when compared based on town size within the regional average comparison.

As a general rule, the majority of business ratepayers also pay residential or farmland rates and therefore increasing business rates will result in inequity in respect of ability to pay.

Arguments have been raised that there are ratepayers who own multiple properties. However, it is expected that these properties are rented out and therefore still 'use' the facilities provided by Council.

Argument has been raised that a large number of business owners are not from the Glen Innes Severn area. This is not justified with an estimated 73% of business properties owned by residents of the Glen Innes Severn Area. In this regard it should be noted that there is also no ability under the *Local Government Act 1993* to target ratepayers from large organisations.

4.5 Considering the community's capacity and willingness to pay

Indicate how the council has assessed the community's capacity to pay for the rate increases being proposed, and also assessed its willingness to pay.

Evidence on 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 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.

Councils approach to this particular criterion was to identify the Community's expectations through Community Consultation (in particular the original CSP engagement in 2011 and the subsequent engagement regarding the AMP, LTFP, SRV, Road Hierarchies and Open Spaces Hierarchies).

The identified expectations were included in the original LTFP which included significant increases in grant funding (FAGS and R2R). This grant funding did not materialise and Council found itself in the position to revise its LTFP excluding these grant increases. Based on the subsequent consultation of new Road Hierarchies and Open Spaces Hierarchies as well as the AMP and general community feedback it was clear that given the Communities expectations, Council was not maintaining its assets to the required level. This lack of spending was caused by Council having insufficient funds to be able to meet the required renewal ratios. This was clear in the LTFP but in particular the AMP (Transport).

Council then devised a multi-pronged approach to addressing these Community concerns by sourcing additional revenue (SRV) and Loan funding (LIRS), combined with internal savings. These strategies were included in a revised LTFP which suggested that Council could make significant headway and that it could increase its asset renewal (for roads primarily) to a level that would meet the required expenditure. These revised amounts were then included in Councils AMP (Transport) (Attachment E] which was put on public display and identified that the additional revenue would start to address Councils infrastructure backlog.

As part of the SRV process a mail out brochure and survey was sent to all ratepayers and the results clearly indicated the importance of roads and infrastructure to ratepayers:

Question 2 to 9: Condition and Importance of Roads
The survey results identified that the condition of infrastructure assets (bridges, town and village streets and unsealed and sealed rural roads) was important to ratepayers, with a ranking of over four (4) out of five (5) for all categories.

In respect of the condition of roads, the ranking was from one (1) through to (6) with one (1) being very poor and six (6) being excellent.

The results were as follows:

Infrastructure Asset	Condition (1 to 6)	Importance (1 to 5)
Rural Sealed Roads	2.68	4.07
Rural Unsealed Roads	2.44	4.07
Town and Village Streets	2.74	4.05
Bridges	2.95	4.03
Average	**2.70**	**4.06**

The results indicate that the conditions of assets were important, and that the condition was marginally below Fair with a ranking of 2.7.

It should be noted that there was also reasonable support for the proposal by Council, as part of the survey the question was asked whether the ratepayers supported a SRV to be spent on roads, bridges and footpaths. The results were as follows:

Question 10: Support for a SRV to pay for Roads, Bridges and Footpaths:
The support for a SRV to pay for Roads, Bridges and Footpaths on a rating of one (1) for fully disapprove through to five (5) fully approve is 2.61. This suggests that there is partial support for a SRV to pay for Roads, Bridges and Footpaths.

The question was then asked whether the ratepayers were in support of Councils specific proposal, the results were as follows:

Question 11: Support for a SRV Residential and Farmland:
The true result of this particular question is more difficult to determine, due to the ability to suggest an alternative percentage. Therefore some discretion has been used to determine whether the alternative suggestion is an increase above the rate peg or no increase at all.

The results have been broken up into four (4) categories, full support for the proposal, support for a SRV but not for the particular proposal, support for an SRV, and full disapproval.

Farmland:

Full Approval	88	28.12%
Approval for SRV but not Council's proposal	44	14.06%
Approval for an SRV	132	42.18%
Full Disapproval	181	57.82%
Total	**313**	**100.00%**

Residential:

Full Approval	115	36.98%
Approval for SRV but not Council's proposal	30	9.64%
Approval for an SRV	145	46.62%
Full Disapproval	166	53.37%
Total	**311**	**100.00%**

It should be noted that due the margin of error of 5.5% (+/-) based on the sample size, the survey results are very close.

Based on these results, as the general feedback provided to Council, the proposal was adopted by Council. However, an adjustment was made to reduce the extent of the increase on Farmland ratepayers and increase the extent of the increase of Residential ratepayers. This change was communicated to the public as identified under the Community Consultation section above and was driven purely by the feedback provided in the first two Community Consultation Forums.

The reason the increase was targeted at Residential and Farmland ratepayers was discussed in depth in the LTFP and associated Discussion Paper, the business paper reports and the associated Community Engagement Materials.

Extract from the Business Paper Report adopting LTFP:

Farmland Rates and the Regional Average: *As mentioned above, the original proposal was on the basis of a comparison of Farmland and Residential rates against what could be considered the Regional average.*

A further comparison made on the ad-valorem and base amount method (farmland only) has provided a similar result, suggesting that indeed there is a variation between the GISC farmland average and the regional average.

A summary of the two (2) methods indicates the following (please note that the latest DLG figures (2011/12) were used in respect of the original comparison):

Method of Calculating variance	GISC Farmland Rate	Regional Average Farmland Rate	Variance per Assessment	No. of Assessments	Total Variance
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Ad-valorem + base amount method (2013/14)	2,057.89	2,920.48	862.59	1,016	876,391.44

When making the comparison please review the actual calculation sheets; different years are used and not all of the Councils were included in the Average Rates method. It is not expected that this would materially impact the outcome.

It is recommended that Council considers both options. However, given the feedback provided in all subsequent community consultation forums it is recommended that Council considers option two (2) as the preferred scenario. It is further recommended that Council considers the impact per ratepayer, effectively the dollar increase per person. The impact on the increase per person by imposing the increase on residential ratepayers is spread and therefore, in respect of equity and ability to pay, this is likely to be easier to bear.

Ability to pay as indicated by outstanding accounts/ unpaid amounts:
In regard to ability to pay, the January 2014 rates report shows the overdue percentage for each rating category (as a proportion of rates raised for each category for this financial year):

Residential	*$243,078.47*	*4.11 %*
Business	*$ 42,418.22*	*4.33 %*
Farmland	*$ 34,477.74*	*1.53 %*
Mining	*$ 12,623.96*	*96.75 %*
Non-Rateable	*$ 19,456.72*	*12.14 %*

It is clear that the Farmland rating category is lower than all other categories for unpaid amounts. However, in general, it should be noted that the total overdue amount is now lower than in earlier years, with the 2013/14 result of 3.82% being significantly lower than the June 2007 result of 12.50% (which was even higher in earlier years).

Council has a policy provision for agreements to pay by arrangement (Council's Debt Recovery policy). In fact, of the outstanding amounts identified above, a significant portion is on payment arrangements. Furthermore, there are currently 158 ratepayers who have entered into arrangements for the payment of their accounts, totaling $220,754.34.

Based on the information above, it is recommended that Scenario 5 of the LTFP combined with Option 2 (the option identified above) would provide the most appropriate and equitable spread of the rate increase.

The exclusion of Business and Mining rates from the increase

Mining: *The impact of including mining would be minimal and based on the amount outstanding the actual cash return would be negligible. Please consider in this regard that the total amount outstanding from the three (3) mining properties is $12,623.96 accounting for 96.75% of total rates raised in the last financial year. Therefore mining can be reasonably excluded.*

The argument was also raised that the mining rate should be raised now, in case mining is commenced within the area and this results in a loss of rates. This is not a valid concern as it is expected that the mining application process will provide Council with sufficient notice to be able to address mining rates prior to any new mining in the area.

Business rates: *The impact of imposing additional rates on businesses would result in an immaterial reduction in rates across the board. It is expected that an increase across the board would still result in a compounded increase over three (3) years of 29.62% (compared with an increase of 25.87% for Residential and 38.05% for Farmland based on Option 2).*

In fact, it is believed that increasing business rates would result in more inequity for the following reasons:

- *Business ratepayers already pay other fees such as trade waste charges which result in a higher overall bill (it should be noted that a basic comparison between Farmland, Business and Residential based on a total levy including annual charges suggests that business ratepayers pay $2,363.44 per annum compared with $1,516.11 for Residential and $2,132.25 for Farmland);*
- *Business rates are very comparable to the regional average and are believed to be reasonable when compared based on town size within the regional average comparison;*
- *As a general rule, the majority of business ratepayers also pay residential or farmland rates and therefore increasing business rates will result in inequity in respect of ability to pay;*
- *Arguments have been raised that there are ratepayers who own multiple properties. However, it is expected that these properties are rented out and therefore still 'use' the facilities provided by Council;*
- *Argument has been raised that a large number of business owners are not from the Glen Innes Severn area. This is not justified with an estimated 73% of business properties owned by residents of the Glen Innes Severn Area. In this regard it should be noted that there is also no ability under the Local Government Act 1993 to target ratepayers from large organisations.*

SEIFA RANKING REVIEW COMPARED TO AVERAGE RATES (2011/12)

	SEIFA (2011) CODE	SEIFA RANKING	AVERAGE FARMLAND RATE (2011/12)	SEIFA ADJUSTED RATE	VARIANCE
Armidale Dumaresq	10110	985	2,312.22	2,466.80	154.58
Gwydir	13660	934	3,759.73	2,339.30	-1,420.43
Tenterfield	17400	907	1,006.15	2,272.42	1,266.27
Glen Innes Severn	13010	914	1,875.85	2,288.99	413.14
Uralla	17650	974	3,404.84	2,439.70	-965.14
Walcha	17850	965	3,131.75	2,418.08	-713.67
Inverell	14200	912	2,253.56	2,284.42	30.86
Kyogle	14550	902	1,228.50	2,259.98	1,031.48
Guyra	13650	921	2,103.45	2,306.36	202.91
Average		**935**	**2,341.78**	2.50	**0.00**

Applying the SEIFA ranking to the average of the aforementioned Farmland Rates suggests that approximately $2.5 is to be charged per SEIFA point to achieve a SEIFA weighted rate. This rating suggests that the Glen Innes Severn Council is still below by $413.14 per assessment for Farmland Rates. Based on 1016 assessments this equates to $419,750.24 to reflect Councils SEIFA ranking.

	SEIFA (2011) CODE	SEIFA RANKING	AVERAGE RESIDENTIAL RATE (2011/12)	SEIFA ADJUSTED RATE	VARIANCE
Armidale Dumaresq	10110	985	827.01	562.55	-264.46
Gwydir	13660	934	381.07	533.47	152.40
Tenterfield	17400	907	317.63	518.22	200.59
Glen Innes Severn	13010	914	545.63	522.00	-23.63

Uralla	17650	974	473.09	556.37	83.28
Walcha	17850	965	383.07	551.44	168.37
Inverell	14200	912	821.70	520.96	-300.74
Kyogle	14550	902	647.86	515.38	-132.48
Guyra	13650	921	409.28	525.96	116.68
Average		**935**	**534.04**	0.57	**0.00**

Applying the SEIFA ranking to the average of the aforementioned Residential Rates suggests that approximately $0.57 is to be charged per SEIFA point to achieve a SEIFA weighted rate. This rating suggests that the Glen Innes Severn Council is slight above ($23.63) per assessment for Residential Rates.

	SEIFA (2011) CODE	**SEIFA RANKING**	**AVERAGE BUSINESS RATE (2011/12)**	**SEIFA ADJUSTED RATE**	**VARIANCE**
Armidale Dumaresq	10110	985	3,046.79	1,292.08	-1,754.71
Gwydir	13660	934	344.34	1,225.29	880.95
Tenterfield	17400	907	721.52	1,190.26	468.74
Glen Innes Severn	13010	914	1,247.45	1,198.94	-48.51
Uralla	17650	974	472.05	1,277.88	805.83
Walcha	17850	965	620.25	1,266.55	646.30
Inverell	14200	912	3,009.17	1,196.55	-1,812.62
Kyogle	14550	902	965.52	1,183.75	218.23
Guyra	13650	921	612.24	1,208.04	595.80
Average		**935**	**1,226.59**	1.31	**-**

Applying the SEIFA ranking to the average of the aforementioned Business Rates suggests that approximately $1.31 is to be charged per SEIFA point to achieve a SEIFA weighted rate. This rating suggests that the Glen Innes Severn Council is slightly above ($48.51) per assessment for Business Rates.

5 Assessment criterion 3: Impact on ratepayers

In the DLG Guidelines, criterion 3 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. Council's IP&R process should also establish that the proposed rate increases are affordable having regard to the local community's capacity to pay.*

We are required to assess whether the impact on ratepayers of the council's proposed special variation is reasonable. To do this, we are required to take into account current rate levels, the existing ratepayer base and the purpose of the special variation. We must also assess whether the council's IP&R process established that the community could afford the proposed rate rises.

5.1 Impact on rates

Much of the quantitative information we need on the impact of the special variation on rate levels will already be contained in Worksheet 5 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 differs from the current rating structure, 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. However, you should explain the rationale for applying the increase differentially among different categories and/or subcategories of ratepayers, particularly in light of the purpose of the special variation. This will be relevant to our assessment of the reasonableness of the impact on ratepayers.

The 2013/14 rating structure is identified below. The rating structure has been reviewed to ensure that it is a fair imposition on rate payers. However, as indicated in the review above, Farmland is below the regional average and therefore it is believed that there capacity to pay in that regard. The difficulty in this particular year is that both NSW and QLD are in a drought at the present point in time. This has made the decision even more difficult, and resulted in a re-allocation of the increase between Residential and Farmland rates as a result of our first two (2) Community Consultation Forums.

The increase in rates is in accordance with the community mail out sent to ratepayers in January 2014. The increases were also thoroughly discussed at all community consultation forums and received a significant amount of media coverage as was explained above [please refer to Attachment P]. The increase is also in line with Council's projections and these identified increases have been brought into Council's new proposed rating structure. The difficulty is that the Glen Innes Severn LGA has been re-valued this financial year and this has made determining the exact rating structure difficult. The proposed rating structure and the actual rating structure may therefore vary slightly, however, Council will aim at ensuring that the increase is similar to that proposed (apart from land values). The breakdown between subcategories may need to be reviewed because of the revaluation. The aim being to avoid inequity created through the revaluation.

Calculation of Notional General Income - Ordinary Rates

Rating Category (s514-518)	Name of sub-category	Number of Assessments	Ad Valorem Rate	Base Amount $	Base Amount %	Minimum Amount $	Number on Minimum	Land Value (see note above)	Land Value of Land on Minimum	Notional General Income
Residential	Residential Non-Urban	800.00	0.5969			425.00	311.00	83,894,840	12,056,140	560,980
Residential	Residential Deepwater	196.00	0.6193			401.00	185.00	7,049,100	6,065,100	80,279
Residential	Residential Dundee	25.00	0.4622			401.00	24.00	672,500	582,500	10,040
Residential	Residential Emmaville	168.00	0.536			401.00	165.00	3,818,940	3,546,940	67,623
Residential	Residential Glencoe	48.00	0.5346			401.00	47.00	1,550,500	1,470,500	19,275
Residential	Residential Red Range	35.00	0.4212			401.00	34.00	1,256,000	1,156,000	14,055
Residential	Residential Wellingrove	7.00	0.6748			401.00	6.00	225,000	165,000	2,811
Residential	Glen Innes	2,401.00	1.2435			425.00	242.00	125,996,650	6,360,020	1,590,531
Business	Business Non-Urban	46.00	1.3111			472.00	14.00	6,233,140	147,440	86,398
Business	Business Deepwater	32.00	0.9541			472.00	27.00	953,400	543,800	16,652
Business	Business Dundee	2.00	0.9482			472.00	1.00	60,000	10,000	946
Business	Business Emmaville	13.00	0.8137			472.00	12.00	254,630	194,630	6,152
Business	Business Glencoe	5.00	0.9942			472.00	4.00	152,000	104,000	2,365
Business	Business Red Range	3.00	1.5828			472.00	2.00	32,000	2,000	1,419
Business	Business Wellingrove	2.00	4.7408			472.00	1.00	11,000	1,000	946
Business	Business Glen Innes	293.00	1.5495			472.00	30.00			427,276

								27,305,579	644,348	
Mining	Mining	3.00	1.6176			283.00	2.00	57,190	22,190	1,132
Farmland	Farmland	1,020.00	0.2466	331.00	16.08%			714,375,450		2,099,270
Total Assessments:		5,099.00			**Total Rateable Land Value:**			973,897,919	**Sub-Total:**	4,988,150

The proposed rating structure based on the pre-revaluation values is as follows:

Rating Category (s514-518)	Name of sub-category	Number of Assess-ments	Ad Valorem Rate	Base Amount $	Base Amount %	Minimum Amount $	Number on Minimum	Land Value as at start of year	Land Value of Land on Minimum	Notional General Income
Residential	Residential Non-Urban	800.00	0.669160627			480.00	311.00	83,894,840	12,056,140	629,996
Residential	Residential Deepwater	196.00	0.613685643			455.00	185.00	7,049,100	6,065,100	90,214
Residential	Residential Dundee	25.00	0.400723827			455.00	24.00	672,500	582,500	11,281
Residential	Residential Emmaville	168.00	0.307593473			455.00	165.00	3,818,940	3,546,940	75,912
Residential	Residential Glencoe	48.00	0.322927333			455.00	47.00	1,550,500	1,470,500	21,643
Residential	Residential Red Range	35.00	0.320457325			455.00	34.00	1,256,000	1,156,000	15,790
Residential	Residential Wellingrove	7.00	0.712145773			455.00	6.00	225,000	165,000	3,157
Residential	Glen Innes	2,401.00	1.395274322			483.00	242.00	125,996,650	6,360,020	1,786,145
Business	Business Non-Urban	46.00	1.341268773			483.00	14.00	6,233,140	147,440	88,388
Business	Business Deepwater	32.00	0.975667613			483.00	27.00	953,400	543,800	17,037
Business	Business Dundee	2.00	0.970267847			483.00	1.00	60,000	10,000	968
Business	Business Emmaville	13.00	0.833406291			483.00	12.00		194,630	6,296

								254,630		
Business	Business Glencoe	5.00	1.017959518			483.00	4.00	152,000	104,000	2,421
Business	Business Red Range	3.00	1.619828356			483.00	2.00	32,000	2,000	1,452
Business	Business Wellingrove	2.00	4.848503483			483.00	1.00	11,000	1,000	968
Business	Business Glen Innes	293.00	1.585132292			483.00	30.00	27,305,579	644,348	437,106
Mining	Mining	3.00	1.65220275			290.00	2.00	57,190	22,190	1,158
Farmland	Farmland	1,020.00	0.272893551	400.00	17.31%			714,375,450		2,357,485
Total Assessments:		5,099.00				**Total Rateable Land Value:**		973,897,919	**Sub-Total:**	5,547,417

Based on the projections above, it is expected that the increase will be close the declared increases, this can be seen in the table below:

Rating Category (s514-518)	**Name of sub-category**	**Notional General Income**		**Expected**
CATEGORY	**SUB-CATEGORY**	**2014/15**	**2013/14**	**% increase**
Residential	Residential Non-Urban	629,996	560,980	12.3%
Residential	Residential Deepwater	90,214	80,279	12.4%
Residential	Residential Dundee	11,281	10,040	12.4%
Residential	Residential Emmaville	75,912	67,623	12.3%
Residential	Residential Glencoe	21,643	19,275	12.3%
Residential	Residential Red Range	15,790	14,055	12.3%
Residential	Residential Wellingrove	3,157	2,811	12.3%
Residential	Glen Innes	1,786,145	1,590,531	12.3%
Business	Business Non-Urban	88,388	86,398	2.3%
Business	Business Deepwater	17,037	16,652	2.3%
Business	Business Dundee	968	946	2.3%
Business	Business Emmaville	6,296	6,152	2.3%
Business	Business Glencoe	2,421	2,365	2.3%
Business	Business Red Range	1,452	1,419	2.3%

Business	Business Wellingrove	968	946	2.3%
Business	Business Glen Innes	437,106	427,276	2.3%
Mining	Mining	1,158	1,132	2.3%
Farmland	Farmland	2,357,485	2,099,270	12.3%
Total Assessments:		5,547,417	4,988,150	

The rating structure (or increase) adopted by Council and communicated to the Community is as follows:

Option 2: Special Rate Variation (Adopted Proposal)

Rates category	YEAR					
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Residential (RATE PEG) (Average)	545.63	565.27	584.49	597.93	618.26	639.28
Special Rate Variation	545.63	565.27	584.49	656.38	711.52	735.71
Variance	-	-	-	**58.45**	**93.26**	**96.43**
% Increase				10.00%	5.00%	0.00%
Rate Peg %		3.6%	3.4%	2.30%	3.40%	3.40%
Compounding Increase				12.30%	21.73%	25.87%
Assessments	3,636	3,636	3,636	3,636	3,636	3,636
Revenue Raised	-	-	-	212,520.56	339,076.56	350,605.16
Farmland (RATE PEG) (Average)	1,875.85	1,943.38	2,009.45	2,055.67	2,125.56	2,197.83
Special Rate Variation	1,875.85	1,943.38	2,009.45	2,256.61	2,559.00	2,773.95
Variance	-	-	-	**200.95**	**433.44**	**576.13**
% Increase				10.00%	10.00%	5.00%
Rate Peg %		3.6%	3.4%	2.30%	3.40%	3.40%

Compounding Increase				12.30%	27.35%	38.05%
Assessments	1,016	1,016	1,016	1,016	1,016	1,016
Revenue Raised	-	-	-	204,160.12	440,373.38	585,343.19
TOTAL ADDITIONAL REVENUE PROPOSED				**416,680.68**	**779,449.94**	**935,948.36**

Council used the 2011/12 comparative figures in its original calculations to ensure that the figure matched to the DLG comparative information figures therefore providing a reliable basis by which to calculate and compare with the neighbouring (or regional) average. No later comparative figures have yet been released by the DLG. Council later used the various Councils individual rating structures from their Operational Plans for 2013/14 to draw a more accurate comparison. This comparison is as follows:

Rate Category	Sub-Categories	Shire	Valuation Base Date	Average Land Value within each Shire	Ad-Valorem	Base	Total Rates	Using Glen Innes Severn Average Land Values	Ad-Valorem	Base	Total Rates
Farmland		Gwydir	2012	1,105,548	0.3676169	160.00	**4,224.18**	700,279	0.3676169	160.00	**2,734.34**
		Inverell	2009	485,818	0.4121000	185.00	**2,187.06**	700,279	0.4121000	185.00	**3,070.85**
		Tamworth	2010	535,770	0.2997510	150.00	**1,755.98**	700,279	0.2997510	150.00	**2,249.09**
		Moree	2011	1,610,251	0.3624400	750.00	**6,586.19**	700,279	0.3624400	750.00	**3,288.09**
	Irrigable	Moree	2012	2,990,183	0.4511200	775.00	**14,264.31**	700,279	0.4511200	775.00	**3,934.10**
		Uralla	2011	773,530	0.3977000	238.00	**3,314.33**	700,279	0.3977000	238.00	**3,023.01**
	Dryland	Narrabri	2011	1,820,392	0.5021000	200.00	**9,340.19**	700,279	0.5021000	200.00	**3,716.10**
	Irrigable	Narrabri	2011	1,820,392	0.5021000	400.00	**9,540.19**	700,279	0.5021000	400.00	**3,916.10**
		Tenterfield	2010	499,570	0.2097070	330.00	**1,377.63**	700,279	0.2097070	330.00	**1,798.53**

		Armidale	2010	690,950	0.3622000	474.00	**2,976.62**	700,279	0.3622000	474.00	**3,010.41**
		Guyra	2010	921,387	0.1953000	449.90	**2,249.37**	700,279	0.1953000	449.90	**1,817.55**
	Intensive	Guyra	2010	400,000	0.2149300	2,149.10	**3,008.82**	700,279	0.2149300	2,149.10	**3,654.21**
		Walcha	2010	1,149,177	0.2987250	390.85	**3,823.73**	700,279	0.2987250	390.85	**2,482.76**
		Kyogle	2009	399,072	0.2866830	184.00	**1,328.07**	700,279	0.2866830	184.00	**2,191.58**
		Glen Innes	2010	700,279	0.2466000	331.00	**2,057.89**	700,279	0.2466000	331.00	**2,057.89**
					Average excluding Glen Innes						**2,920.48**
					Average including Glen Innes						**2,862.97**
					Average excluding Irrigation and Intensive						**2,671.12**
					Average excluding Irrigation, Moree, Tamworth and Narrabri and Glen Innes						**2,516.13**

The comparison above indicates that there is an approximate $863K variance between the regional average compared with Glen Innes Severn farmland when applying an equal property value to the calculation. The situation is even starker when the average property value for the respective Councils is used, due to the significant variance in average property values. This suggests that there is a variance between rural rates in the Glen Innes Severn LGA and the regional average. It is not believed that there is any significant difference in profitability of farms in the Glen Innes LGA compared with the regional average that would not have been taken into account by the Valuer Generals valuations and therefore it is expected that the comparison is valid.

The following is an extract from the community mail out brochure [Attachment F]:

5.1 How Do Our Rates Compare?

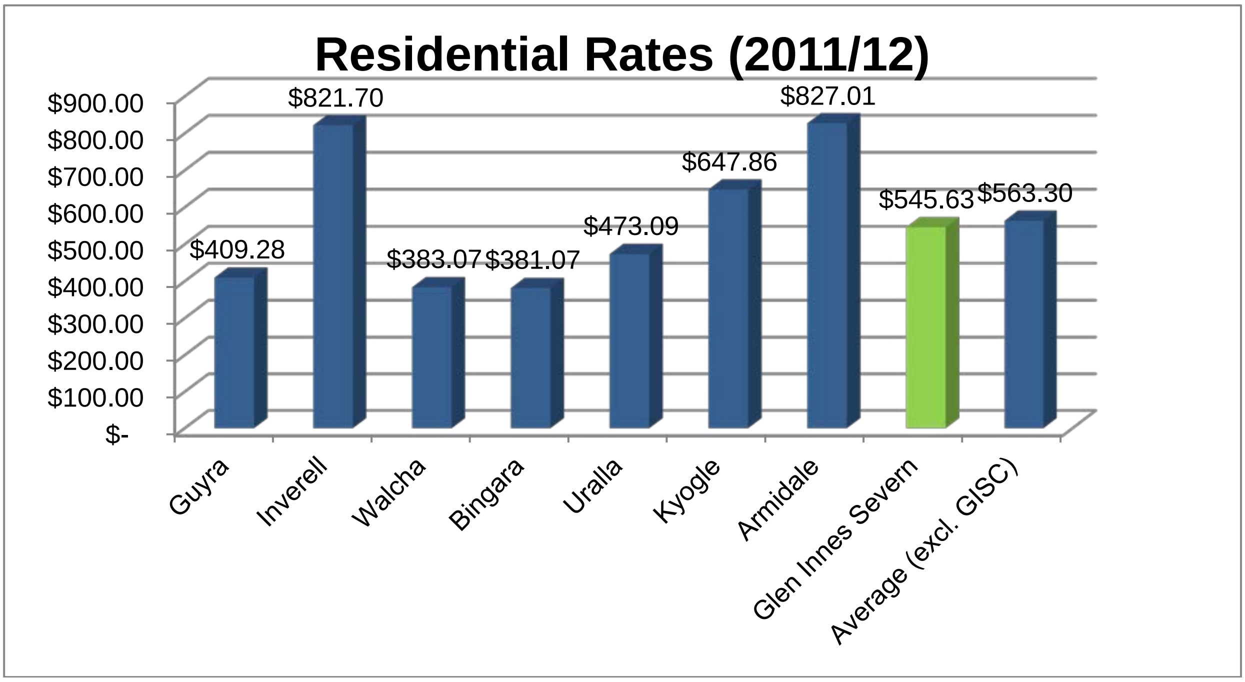
Rates in all Council's categories are relatively low when compared to similar NSW councils. Other councils in our region (that these comparisons are made against) include Guyra, Inverell, Walcha, Bingara, Uralla, Kyogle and Armidale – Tenterfield has been excluded due to their current application for a rate variation of 45%.

REGIONAL COMPARISON (2011/12)								
	Guyra	Inverell	Walcha	Bingara	Uralla	Kyogle	Armidale	Average (excl. GISC)
Residential	409.28	821.70	383.07	381.07	473.09	647.86	827.01	563.30
Business Rate	612.24	3,009.17	620.25	344.34	472.05	965.52	3,046.79	1,295.77
Farmland Rate	2,103.45	2,253.56	3,131.75	3,759.73	3,404.84	1,228.50	2,312.22	2,599.15
	Glen Innes Severn	Regional Average	Variation	Assessments	Variance in dollar terms			
Residential	545.63	563.30	17.67	3,636.00	64,237.73		This comparison (at 2011/12) suggests that Council is $818,000 behind the regional average if Glen Innes Severn ratepayers were charged the regional average (excluding Glen Innes).	
Business Rate LGA	1,247.45	1,295.77	48.32	390.00	18,843.13			
Farmland Rate	1,875.85	2,599.15	723.30	1,016.00	734,872.80			
					817,953.66			

The actual variation requested is not identical to the variation identified in green above. However, the suggested increase is in large part based on this variance balanced with the need to equitably raise the rates without overly burdening one particular category.

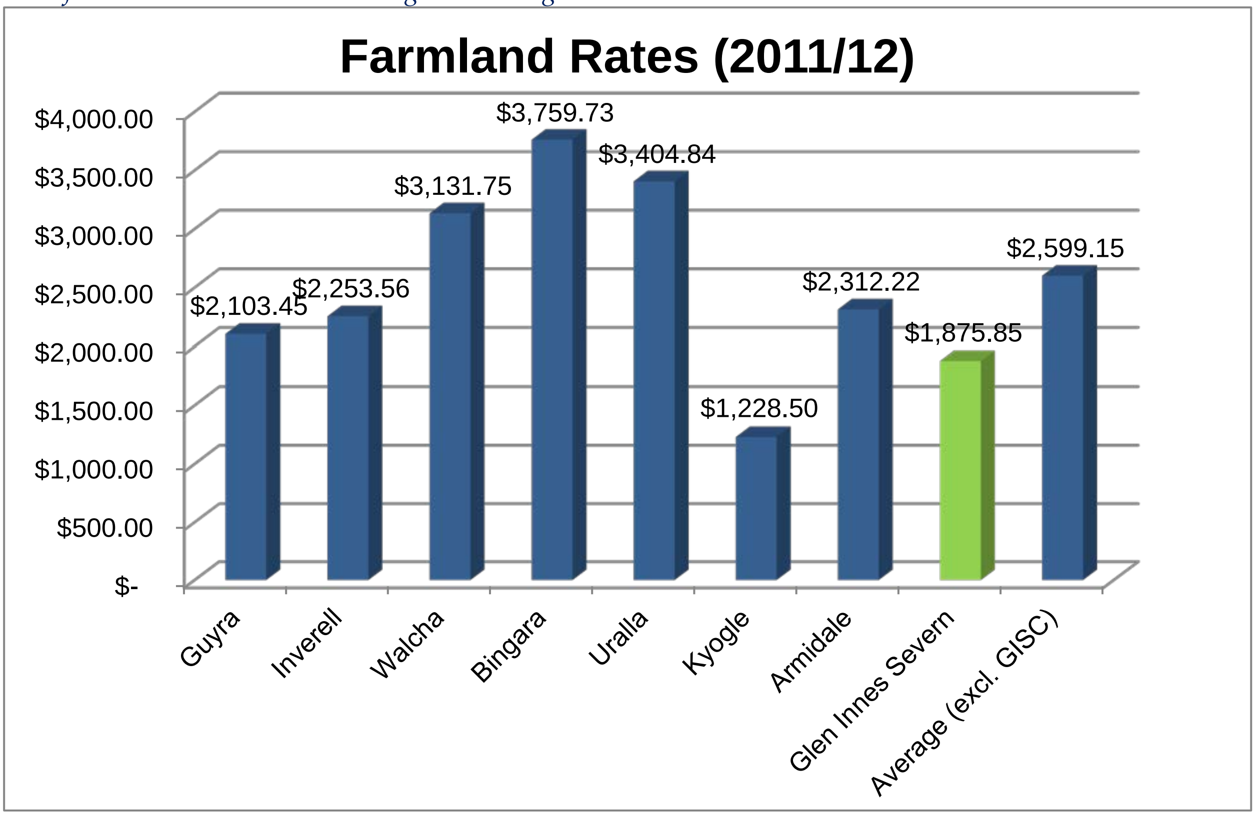
5.1.1 Residential Rates

In 2011/12 (the last year of data currently available), the Glen Innes Severn average residential rate was $545. The regional average was $563. Therefore Council were below the regional average.



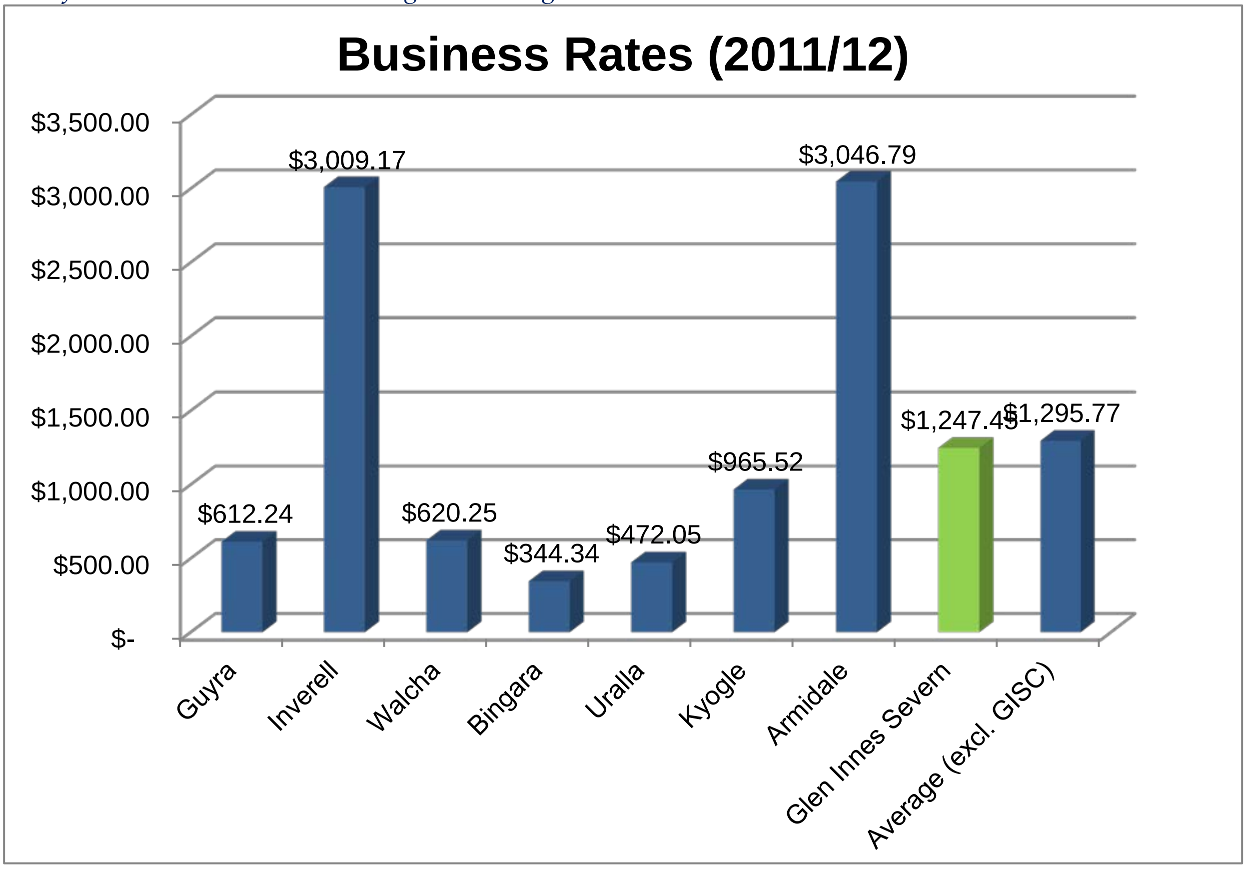
5.1.2 Farmland

In 2011/12, the Glen Innes Severn average farmland rate was $1,875. The regional average was $2,599. Therefore Council were below the regional average.



5.1.3 Business

In 2011/12, the Glen Innes Severn average business rate was $1,247. The regional average was $1,295. Therefore Council were below the regional average.



Expenditure on Roads, Bridges and Footpaths:

It should be noted that the expenditure that will be funded from the SRV is in large part for Rural Roads (in particular as part of the LIRS funding – rural bridges will receive a significant boost) and therefore Council believes that the increase is spread evenly in respect of who will receive the most benefit. Even where "Town roads" are renewed these are regularly used by Rural ratepayers to purchase groceries etc. Council has received an independent review of its bridge infrastructure [Attachment M]. It is expected that a commensurately large portion of this funding will therefore be spent on Rural Roads and Bridges. The expenditure being apportioned based on increase asked for and based on need suggests that there is a significant amount of equity associated with asking rural ratepayers to pay more to bring them to the regional average.

Increase in Farmland and Residential Rates:

The increases are believed to be reasonable based on the capacity of the community to pay. It is not expected that the increases will result in hardship. The reason other classes have been excluded are discussed above under *4.4 Considering the Impact on Ratepayers*. The reasons these increases are not expected to result in hardship are discussed above under *5 Assessment Criterion 3: Impact on Ratepayers*.

5.1.4 Minimum Rates

The special variation may affect ordinary rates, special rates and minimum rates.

Does the council have minimum rates? Yes ☒ No ☐

If *Yes*, explain how the proposed special variation will apply to the minimum rate of any ordinary and special rate, and any change to the proportion of ratepayers on the minimum rate for all relevant categories that will occur as a result.

So that we can assess the reasonableness of the impact on minimum ratepayers, briefly explain the types of ratepayers that are on minimum rates, and the rationale for the proposed impact of the special variation on minimum rate levels.

Council sets a minimum rate for all of its categories and sub-categories (apart from Farmland which is rated on a base amount plus ad-valorem rate).

The current rating structure has a reasonably uniform Minimum Amount. The difficulty here is identifying the result of the revaluations of the properties in the Glen Innes Severn LGA. It is not clear what impact this will have at present in respect of Councils rating structure. The effect on the rating structure suggested in PART A of the application is as follows (please note - it is not expected that the revaluation will provide a materially different outcome):

Rating Category (s514-518)	Name of sub-category	Number of Assessments	Number on Minimum	Proportion on Minimum	2013/14 Minimum Rate	2014/15 Minimum Rate	Increase
Residential	Residential Non-Urban	800	311	39%	425	480	13%
Residential	Residential Deepwater	196	185	94%	401	455	13%
Residential	Residential Dundee	25	24	96%	401	455	13%
Residential	Residential Emmaville	168	165	98%	401	455	13%
Residential	Residential Glencoe	48	47	98%	401	455	13%
Residential	Residential Red Range	35	34	97%	401	455	13%
Residential	Residential Wellingrove	7	6	86%	401	455	13%
Residential	Glen Innes	2,401.00	242	10%	425	483	14%
Total Residential		**3,680.00**	**1014**	**28%**			
Business	Business Non-Urban	46	14	30%	472	483	2%
Business	Business Deepwater	32	27	84%	472	483	2%
Business	Business Dundee	2	1	50%	472	483	2%
Business	Business Emmaville	13	12	92%	472	483	2%
Business	Business Glencoe	5	4	80%	472	483	2%
Business	Business Red Range	3	2	67%	472	483	2%
Business	Business Wellingrove	2	1	50%	472	483	2%
Business	Business Glen Innes	293	30	10%	472	483	2%

Total Residential		**396**	**91**	**23%**			
Mining	Mining	3	2	67%	283	290	2%

The minimums are most evident in the smaller villages (centres of population). Council is aware that the yield from minimum rates in the business sub-categories in the smaller towns approach and in a number of small towns exceed 50%. The mining category has also not exceeded the 50% benchmark for number of assessments, this was caused by a loss of a mining assessment during the rating year. However, the total amount of rates raised from ad-valorem exceeds that raised from the minimum amount.

The Division of Local Government (DLG) have for some time encouraged all Council's to re-examine their structures should any yield from any category or sub-category exceed the 50% benchmark. However, Council has inherited a situation where pre-amalgamation rates for the Severn Shire Council had not been increased for a number of years in the mid 90's (as can be seen from the below average Farmland rates) and it was believed that this rating structure would provide the greatest equity. It should also be noted that the minimum and proposed minimum amounts are below the legislated threshold and the increase in the minimum amount will be consistent with the projected increase communicated to residents. Therefore the increase in the SRV will not unduly impact these ratepayers.

The number of properties in the sub-categories affected by minimums are so few and the valuations so low, it is difficult to maintain a uniform minimum rate without exceeding the suggested threshold. Given the relatively small yield from these centres when compared to the total rate effort, Council is satisfied that the ratepayers in these sub-categories are not unduly burdened. It is also believed, that given the limited revenues raised from these centres and the benefit expected for rural ratepayers under the SRV expenditure program that the imposition will be fair and equitable.

It is also estimated that a number of the individuals impacted on the minimum rate will be pensioners and therefore the pensioner rebate will provide relief in this regard.

Furthermore, the current rates and charges outstanding are now at a ten (10) year low (at least):

The following figures (December/January 2014) show the overdue percentage for each rating category (as a proportion of rates raised for each category for this financial year):

Residential	$243,078.47	4.11%
Business	$ 42,418.22	4.33%
Farmland	$ 34,477.74	1.53 %
Mining	$ 12,623.96	96.75 %
Non-Rateable	$ 19,456.72	12.14 %

Based on these percentages it is not expected than any category apart from mining is showing any signs of distress. The mining anomaly relates to one particular assessment (out of three), therefore the results for mining are skewed.

5.2 Affordability and community capacity to pay

Show how your IP&R processes have established that the proposed rate rises are affordable for your community, and that affected ratepayers have the capacity to pay the higher rate levels. (Indicators considered in this context may be similar to those cited under criterion 2.)

The indicators considered were very similar to those discussed under 4.5 Consider the Communities Capacity and Willingness to Pay (criterion 2) above. The indicators have satisfied Council that the imposition although significant will not result in significant hardship within the community.
The indicators were:

1) Outstanding rates and charges percentage is at a ten (10) year low (at least);
2) Glen Innes Severn LGA rates are well below the regional and DLG average for farmland both on an average and ad-valorem rate method;
3) The SEIFA rankings for GISC are reasonably comparable to the Councils used in the regional average comparison (See 4.5 above, SEIFA Comparison);
4) Council will review its hardship policy with specific emphasis on making provision for genuine hardship;
5) Council already has an effective repayment program with 3% of ratepayers on repayment plans;
6) The community has provided feedback regarding the importance of spending on roads and bridges and there is some support (2.61/5) within the community for this increase to be spent on roads; and,
7) The proportion of rate expenditure of overall household income is not believed to be as significant as to cause hardship within the community (2011/12 Average Taxable Income $30,324 with average rates at $545.63 = 1.8% of taxable income for a one (1) income residential ratepayer).

Please review the average rate comparison, the outstanding rates and charges and other information as discussed under 4.5 Consider the Communities Capacity and Willingness to Pay (criterion 2) above.

5.3 Other factors in considering reasonable impact

In assessing whether the overall impact of the rate increases is reasonable we may use some of the same indicators that you cite in section 5.2 above. In general, we will consider indicators such as the local government area's SEIFA index rankings, average income, and current rate levels as they relate to those in comparable councils. We may also consider how the council's hardship policy might reduce the impact on ratepayers.

5.3.1 Addressing hardship

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

Doe the council have a Hardship Policy?	Yes ☒	No ☐
If Yes, is it identified in the council's IP&R documents?	Yes ☐	No ☒

Please attach a copy of the Policy and explain who the potential beneficiaries are and how they are addressed.

Does the council propose to introduce any measures to limit the impact of the proposed special variation on various groups?	Yes ☐	No ☒

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

Council has a Debt Recovery Policy which incorporates a Hardship Policy [Please refer to Attachment L], the number of ratepayers who have taken advantage of Councils repayment plans are reported monthly, in Councils Business Paper. In accordance with the Debt Recovery Policy, a ratepayer may enter into a satisfactory written arrangement with Council (where practical) to repay the debt(s) in full, within the current financial year, in which the debt(s) have been incurred.

Council has recently reviewed its Pensioner concession procedures to ensure that eligible pensioners receive the pension rebate, in doing so Council prepared a new Policy in this regard (the Pensioner Concession Policy). It has also been resolved by Council to review the Hardship/Debt Recovery Policy to ensure that those ratepayers in genuine hardship are identified and can access forms of relief that are equitable (resolution below). It is expected that this will provide Farmland ratepayers with some form of genuine relief. It should be noted in this regard that Council is currently at the lowest point in respect of outstanding rates and charges in the last ten (10) years and that almost three percent of rate payers are already on a payment arrangement suggesting that the current system is working well.

There are currently 158 ratepayers who have entered into arrangements for the payment of their accounts, totalling $220,754.34. The Debt Recovery Policy allows for payment arrangements as well as the writing off of interest in particular situations, such as hardship, illness etc. It should be noted that Council has as part of the adoption of the SRV also resolved to review the Debt Recovery Policy as follows:

Moved: Cr Scherf   Seconded: Cr Quinn

4.02/14 RESOLUTION

10. That Council requests the Director of Corporate and Community Services to review Council's existing Debt Recovery Policy to ensure that the impact of the SRV is mitigated as far as reasonably possible for those ratepayers who are experiencing genuine hardship.

It is expected that this review will be conducted before the due date of the first instalment or rates in 2014/15.

6 Assessment criterion 4: Assumptions in Delivery Program and LTFP

The DLG Guidelines state this criterion as follows:

The proposed Delivery Program and Long Term Financial Plan must show evidence of realistic assumptions.

Summarise below the key assumptions adopted by the council and indicate where they are set out in your Delivery Plan and LTFP. We will need to assess whether the assumptions are realistic. For your information, we will consider such matters as:

- the proposed scope and level of service delivery given the council's financial outlook and the community's priorities
- estimates of specific program or project costs
- projections of the various revenue and cost components.

To also assist us, identify any in-house feasibility work, industry benchmarks or independent reviews that have been used to develop assumptions in the Delivery Program and LTFP if these are not stated in those documents.

The Revised LTFP is effectively a review of the 2011 Long Term Financial Plan and the 2012 reviewed Long Term Financial Plan. Only very minor adjustments were made (in respect of the underlying assumptions) apart from those highlighted in the new LTFP. Therefore the reviewed Long Term Financial Plan – Discussion Paper needs to be read in conjunction with the original two LTFP's.

Please note that both the 2011 and 2012 LTFP's were reviewed by TCORP when applying for the three LIRS loan applications as well as the independent TCORP assessment of Council. TCORP noted that the basic model assumptions were

reasonable and in line with historic results (Attachment A, page 23). The underlying assumptions have not changed significantly in the latest review, apart from explainable differences discussed below.

Major capital work projects for roads, bridges and footpaths are included in Council's AMP (Transport) and are considered reasonable based on historic construction costs. Loan interest expenditure has been set on Council's most recent LIRS applications and from advice from Councils borrowers. **Please note that Council has received cost estimates from an independent assessor in respect of its bridge works program and the LIRS funding it has applied for, therefore it is expected that these capital works estimates are reasonable [Attachment M].**

The major revisions are those stated in the LTFP [Attachment C]:

The adjustments of note are as follows:

1) *It is no longer expected that the Financial Assistance Grant (FAG) and the Roads to Recovery (R2R) grant revenue will increase any more than the Consumer Price Index. In the original plan, an increase of 25% in R2R funding was expected in the 2014/15 financial year, and the Financial Assistance Grant was expected to increase by 4%, with a 20% increase in the 2014-15 financial year.*[5] *This adjustment has been reviewed and, after meeting with the NSW Grants Commission, it is not expected that significant grant increases are likely to materialise. This represents a deterioration of approximately $866,500 per annum;*[6]
2) *In regard to capital expenditure, $1 million in capital expenditure was originally budgeted for the Swimming Pool Infrastructure Renewal. This estimate has been increased to $1.5 million. The Central Business District infrastructure upgrade budget of $1.8 million, as well as the accelerated road funding of $2 million, has also been left in the base scenario. In saying that, the associated interest rates and loan terms have been adjusted to reflect the approval of the LIRS projects;*
3) *The 2012/13 and 2013/14 actual and budgeted figures have been included in the reviewed long term financial plan;*
4) *The basic assumptions (such as expenditure increases and revenue increases) have been reviewed based on an additional year's worth of results;*
5) *The effect of the aerodrome and the associated capital works and grant revenues have been consolidated into the plan. These arose after the original adoption of the plan;*
6) *The effect of the closure of the Long Day Care Service at Gum Tree Glen and the associated changes have been accounted for in this plan;*
7) *Council has identified the actual required capital works for infrastructure assets, and these have been included in the LTFP to identify the true funding position for infrastructure assets.*

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5 The Financial Assistance Grant represents $3,575,000 in grant funding per annum. The Road to Recovery Grant represents $606,000 in grant funding per annum.

6 The NSW Grants Commission does not administer the Roads to Recovery Grant. However, at this stage it is unlikely that there will be any significant increases associated with this program.

These adjustments, in particular the reduction in the FAGS and the R2R funding, have made a significant difference to Council's projected position. The net result was a deterioration in Council's operating position, which will have a significant impact on Council's ability to meet the goal of a sustainable operating surplus within the next three (3) years.

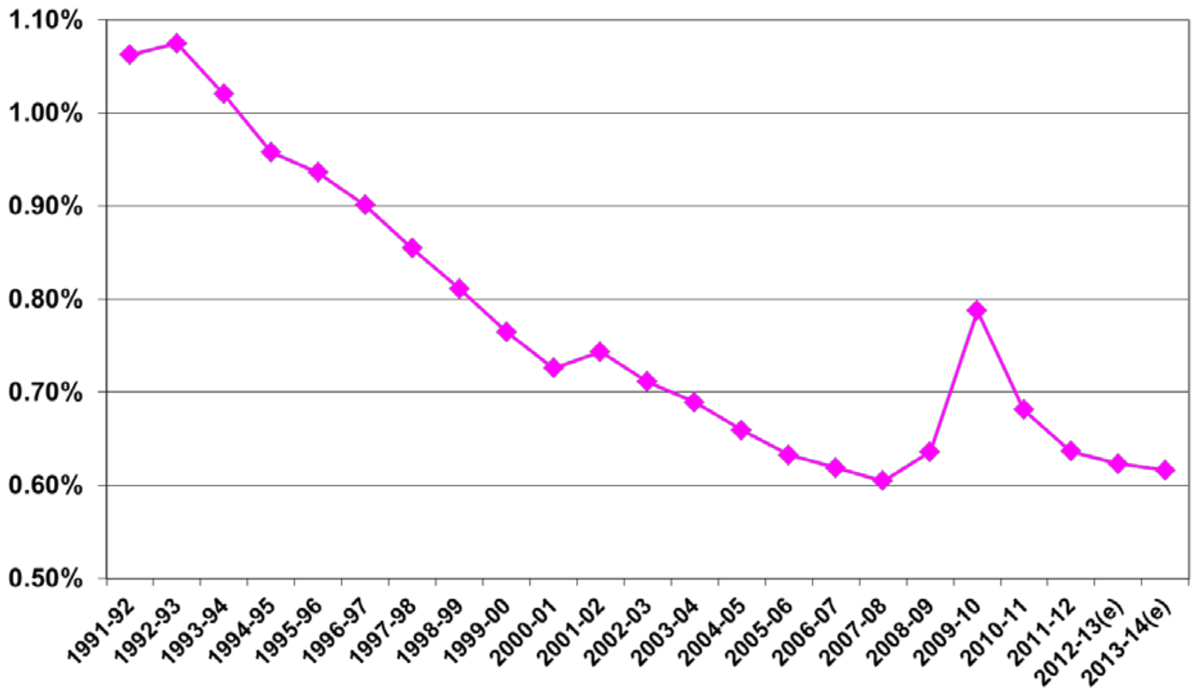
A reduction in the Financial Assistance Grant and Road to Recovery Grant

Increases

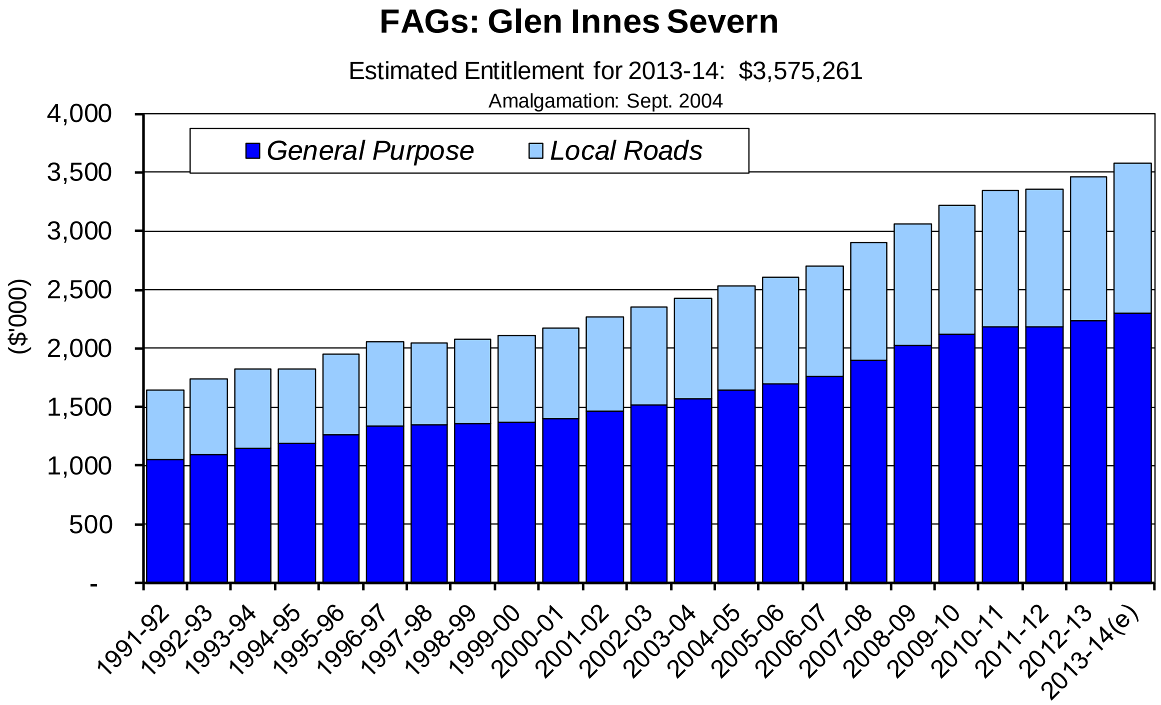
The reason for the removal of the FAGS and the R2R increases are largely due to a meeting between Council and the NSW Grants Commission on 21 October 2013. In this meeting it was identified that there is unlikely to be any significant increase in grant funding in future years. Further, if an increase does materialise, it is likely to be the removal of the minimum per capita rate from the Financial Assistance Grant calculation. A removal of the minimum per capita rate would see a reduction in grant revenue to city councils, with an increase in funding to rural councils such as Glen Innes Severn Council. However, this would require a Commonwealth law change, which is unlikely. If the law change does materialise, the increase is expected to be in the order of $300,000. This would still not provide a balanced budget, and therefore relying on an increase in grant revenue to 'save' Council would be unproductive and unrealistic.

A copy of the presentation made to Council by the Grants Commission is attached within Attachment C.

Of particular note is a graph from the presentation indicating the proportion of Commonwealth revenue that the FAG represents. The spike in the graph in 2009/10 and 2010/11 was due to a significant decrease in Commonwealth revenues in the Global Financial Crisis, not due to a significant increase in funding.



A further graph of note is the comparison of the Financial Assistance Grant entitlement for Glen Innes Severn Council from 1991-92 to 2013-14. It is assumed that the earlier years would include the consolidated amount received for the Severn Shire and Glen Innes Municipal Councils. The Graph shows a gradual increase, suggesting that it is unlikely that there would be any sudden or significant increases. In fact, it should be noted, that due to low population growth, the increase in FAGs for the current financial year is less than the State average. Therefore, on this basis it is argued that the increases in this grant are likely to continue at a similar rate to the Consumer Price Index.



A change in the estimate for the Glen Innes Swimming Pool

The estimate for the swimming pool upgrade, as well as the loan to fund the swimming pool improvements, has been increased from $1 million to $1.5 million. This estimate is based on the interim external reports received regarding the swimming pool. It should be noted that this expenditure will largely represent a renewal of the infrastructure (operating room, pool lining etc) rather than enclosing the pool. In addition, further improvements are proposed, such as a wet deck for children. The exact details will be confirmed once the full investigations have been completed.

At this stage, there is no suggestion to enclose the Glen Innes Swim Centre for year round operation. To do so would significantly increase the capital outlay (in the order of an additional $2.5 million to $4.5 million would be required).[7] *The pool is currently operating at a loss in the summer months, it is expected that enclosing the pool would result in an increased operating loss. The operating cost (the difference between operating revenue of $85,000 and the operational expenditure of $598,974) for both the Emmaville and Glen Innes*

[7] This estimate has been established by researching nine (9) aquatic centre feasibility studies across Australia.

Swimming pool is budgeted this financial year at $513,974. Although the Emmaville Pool represents in the order of $120,000 of this loss, extending the swimming season for the Glen Innes Swim Centre is likely to result in a significant increase in operational costs.[8] *Therefore the idea of enclosing the swimming pool would require not only a significant initial capital outlay (which would need to be funded from loan funds), but also a significant increase in operational costs.*
The current capital expenditure will also be targeted to reduce water wastage and electricity costs, which will hopefully result in other operational savings. These are hard to quantify at this stage.

The effect of the aerodrome and the associated capital works and grant revenues have been

consolidated into the plan

At around $3.5 million, the grant and contribution revenue associated with the aerodrome development is significant. The development will also save in the order of $120,000 per annum in reduced operational costs (excluding depreciation of $120,000 per annum), due to the day to day management being handed over to the Australia Asia Flight Training group (AAFT). There is likely to be additional revenue in user charges for the Water and Sewer fund, but these are hard to quantify at this stage.

This grant revenue is budgeted to be received in the current financial year and, as can be seen from all the prospective scenarios, the expected increase in grant revenue is very significant. However, one should note that this is a one off transaction, and will only have minor ongoing impacts in regard to Council's operating position. It should be noted that the expected revenues will be spent on capital expenditure; therefore the financial benefits at this stage are limited to a minor annual improvement in the operating position.

Estimates have been made to incorporate the impact of the Aerodrome development into all proposed scenarios. The wider economic effect has not been considered in this LTFP.

The impact of the closure of Gum Tree Glen and the associated changes have been accounted

for in this plan

At the time of the previous Long Term Financial Plan no suggestions to close the Long Day Care Service at Gum Tree Glen had been costed into the adopted scenario. The savings identified in the original reports and the cost of the continued operation of the Out of School Hours Care and Early Intervention Services have been included in this plan.[9]

All underlying costs and revenues have been set based on historical trends combined with an estimate of future activities and are considered conservative and reasonable. Where specific costs have been advised to Council actual increases have been included to overwrite the general model assumptions.

The most basic assumptions are those in respect of operating income growth, operating expenditure growth and grant increases, these basic assumptions are identified below:

[8] At this stage it is hard to estimate a change in operating expenditure, as any improvements are only at a preliminary planning stage.
[9] As adopted by Council in the April 2013 Ordinary Council meeting (Resolution 5.04/13).

Operating Income	2014/15	Onwards
Rates - Ordinary	2.30%	3.40%
Annual Charges	3.50%	3.50%
User Charges - Specific	3.50%	3.50%
Fees & Charges - Statutory & Regulatory	3.50%	3.50%
Fees & Charges - Other	3.50%	3.50%
Other Revenues	3.00%	3.00%
Operating Grants - General Purpose (Untied)	3.00%	3.00%
Operating Grants - Specific Purpose	3.00%	3.00%
Operating Expenditure		
Employee Costs - Salaries	3.50%	3.50%
Employee Costs - Casual Wages	3.50%	3.50%
Employee Costs - Superannuation	3.50%	3.50%
Employee Costs - Workers Comp	3.50%	3.50%
Employee Costs - Other	3.50%	3.50%
Employee Costs - Capitalised	3.50%	3.50%
Materials & Contracts - Raw Materials & Consumables	3.50%	3.50%
Materials & Contracts - Contracts	3.50%	3.50%

Materials & Contracts - Legal Expenses	3.50%	3.50%
Materials & Contracts - Other	3.50%	3.50%
Materials & Contracts - Capitalised	3.50%	3.50%
Other Expenses - Insurance	5.00%	5.00%
Other Expenses - Utilities	5.00%	5.00%
Other Expenses - Other	3.00%	3.00%
Interest on New Loans (pre- LIRS)	6.00%	6.00%
Capital Income		
Capital Grants - Recurrent	3.00%	3.00%
Capital Grants - Non-recurrent	3.00%	3.00%
Capital Contributions - Recurrent - Developer Contributions	3.00%	3.00%
Capital Contributions - Non-recurrent - Developer Contributions	3.00%	3.00%
Capital Contributions - Recurrent - Other Contributions	3.00%	3.00%
Capital Contributions - Non-recurrent - Other Contributions	3.00%	3.00%

7 Assessment criterion 5: Productivity improvements and cost containment strategies

The DLG Guidelines state this criterion as follows:

> *An explanation of 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, provide details of any productivity improvements and cost containment strategies that you have implemented in the last 2 years (or longer) and any plans for productivity improvements and cost containment during the period of the special variation. These plans, capital or recurrent in nature, must be aimed at reducing costs. Please also indicate any initiatives to increase revenue eg, user charges. Identify how and where the proposed initiatives have been factored into the council's resourcing strategy (eg, LTFP and AMP).

Where possible, quantify in dollar terms the past and future productivity improvements and savings.

You may also use indicators of efficiency, either over time or in comparison to other relevant councils. We will make similar comparisons using various indicators and the DLG Group data provided to us.

As discussed in all of Council's consultation material and as part of the LTFP, Operational Plan and DP Council has committed to productivity improvements and cost savings within the organisation. These are discussed in detail in these documents, relevant excerpts are below:

Extract from LTFP [Attachment C]

Is Council wasting money elsewhere that could be saved to improve road assets?

The Community and Councillors should always ask the question of how money is spent, in order to ensure that it is spent wisely. It is Council's responsibility to ensure that the details of how money is spent are communicated to the public in a transparent manner. Here are a few main criticisms that can be addressed briefly:

Administration Costs?

The recent release of data as part of the Comparative Information on NSW Local Government Councils for 2011/12 is attached to this report as Annexure H.[10] *The report indicated that there were some very positive results for the Glen Innes Severn Council. In particular the per capita cost of providing administration and governance services is $207.25, compared with the Group Average of $408.57 per capita. Demonstrating that Council is spending approximately half the Division of Local Government (DLG) average on administration services per person compared with Councils which have been grouped as being similar by the DLG. It is hoped that this statistic will draw attention to the fact that the administrative portion of Council is operating efficiently (compared with this industry benchmark). This is in stark contrast to the community perception that Council has an over abundance of administrative staff.*

Is money being wasted on road works?

There is much variability in road projects. Budgets for a particular road project or projects can be overspent with a few delays or unforseen complications, such as adverse weather conditions or unexpected subsurface conditions. For this reason, when measuring the efficiency of road works, it is more appropriate to compare Council's average cost per unit of roads works (e.g. dollar per kilometre of grading or dollar per square metre of concreting works etc) to the industry rate. This should give a good indication of whether Council is wasting money on road works (when compared to the average cost for the industry for

[10] Division of Local Government, "Comparative Information on NSW Local Government Councils 2011/12"

construction of road works). For a small Council of our size, it would be a good thing to match the industry benchmark for road works, particularly considering the additional transport cost associated with moving products such as piping, bitumen etc to Glen Innes.

A review of Council's unit rates, which were incorporated in the 2011/12 and 2012/13 depreciation (or replacement cost) calculations indicated that Council's net replacement cost was lower than the Rawlinson (industry rates) for a number of road work types.

For example unsealed pavement construction; Based on a compaction factor of 0.9, Council's December 2010 average cost equate to $2.20/m² for a 100mm thick pavement layer, and $3.30/m² for a 150mm thick pavement layer. As wages on-costs for historic projects were costed to a separate area of the job cost ledger and not directly costed to projects, an additional 15% has been added to the total rate to account for a 40% oncost on the wages component of gravel re-sheeting jobs. Thus, the revised rates in December 2010 terms are $2.53/m² for a 100mm thick pavement layer, and $3.79/m² for a 150mm thick pavement layer. In comparison, the 'Rawlinson Glen Innes' rate for crushed rock 100mm thick is $13.84/m² for a 100mm thick layer including grading, rolling and compaction, and $23.06 for a 200mm thick layer.

Another example is the cost for bitumen re-sealing, the new rate for a single coat seal was determined from the average of all 2010/11 bituminous resurfacing, and at $3.00 per m² is 94c/m² (or 24%) less expensive than the 'Rawlinson' rate assumed previously.

Council's unit rates for infrastructure projects show that Council is achieving value for money in these projects.

Money is being wasted elsewhere?

Council regularly reviews the allocation of funding throughout the organisation, and continually reviews the budget to ensure money is being spent as allocated. These continual reviews have targeted in particular the non-core functions of Council: i.e. those services that are either being provided elsewhere in the community therefore provide no real benefit to the community, or provide a benefit that, is less than if the money had been spent elsewhere. On this basis, Council has introduced a large number of cost saving initiatives:

1) *Sale of surplus assets/ properties (Highwoods, Tindale etc);*
2) *Reduction of Light Fleet Vehicles by ten (10);*
3) *Stricter controls on overtime and time in lieu;*
4) *Stricter controls on casual staff and filling positions;*
5) *Much stronger procurement controls to improve value for money;*
6) *Reduction in non-core service areas (Gum Tree Glen Long Day Care Service);*
7) *Stricter budget controls, with limits on increases in non-operational expenditure;*
8) *Reduction in staff training to a set percentage.*

These suggestions, along with a number of other cost saving initiatives, have contributed to an improving position. However, it would be impossible without a significant cut of services to meet the required savings to match the required asset renewal amounts. A significant cut would mean a loss in a number of positions throughout Council, and a further reduction in the functions of Council, as well as a reduction in service levels. Realistically, this may be worse than imposing an increase in rates on the Community.

Extract from Business Paper to adopt LTFP and SRV:

That Council is not doing anything to save money or become more efficient

Council has set itself the goal of saving in the order of $650,000 each year by implementing and pursuing the following initiatives:

- *Sale of properties not necessary for operational purposes: Tindale Units ($18,000), Highwoods ($20,000), Garden Court ($25,000), Potters Parade Land ($11,000), Abbott Street Land ($25,000), AAFT Airport ($200,000). Subtotal - $299,000;*
- *Stricter Controls in Overtime and Time in Lieu: $65,000;*
- *Non-replacement of staff on leave: $50,000;*
- *Reduction in "Acting in Higher Grades": $24,000;*
- *Cutting 10 vehicles from light fleet: $50,000;*
- *Shutting down of Freezer Rooms: $20,000;*
- *Grand Total - $508,000.*

Council does have a focus on continuous improvement, and will continue to identify further savings/efficiencies. Specifically, gains have been made with regards to procurement practices. A $60,000 saving is expected to be achieved shortly from Council's in-house printing, and a further $30,000 for a renegotiated telephone contract.

There is however still some work to be done. Further savings of $50,000 to $60,000 per year need to be identified. Council acknowledges that there is room for improvement in some of its service delivery and operations; everything is not perfect (and probably never will be!). However, to argue that "cutting out all the waste" is miraculously going to provide us with an additional $850,000 to $950,000 per annum is just not rational thinking – with all due respect.

Extract from LTFP:

The relatively recent (21 March 2013) TCORP report in respect of the Glen Innes Severn Council noted that Council is 'effectively managed' and in large part its financial ratios are strong and improving.

A quote from the TCORP report notes the following:

"The Council has been effectively managed over the review period based on the following observations:

- *Council's underlying cash result (measured using EBITDA) has been increasing over the three year period;*
- *Council's Unrestricted Current Ratio has been above benchmark each year indicating Council had sufficient liquidity;*

- *Council's Interest Cover Ratio and DSCR have been well above benchmark over the three year period."*[11]

However, in respect of the asset renewal ratio the report also notes:

- *"The Council's Infrastructure Backlog is on an upward trend;*

- *Council is not investing sufficient funds on asset renewals to keep the assets in their current condition and it is likely that the backlog will grow."*[12]

The recommendations made by TCORP included the following:

"However we would also recommend that the following points be considered:

- *Council's rates and annual charges and user fees and charges make up only 42.0% of their overall revenue. We recommend Council considers its options for improving its performance in this area, either by securing new or additional revenue;*
- *Council is reliant on Operating Grants as a key source of revenue. While this is not unusual for rural LGA's it is an area that requires monitoring;*
- *While Council has forecast increases in operating grants Council should continue to source additional revenue streams should this not eventuate"*[13]

At this point in time, based on the fact that the increase in operational grants (the Financial Assistance Grant and the Roads to Recovery Grant) are unlikely to increase, Council staff suggest following the advice of TCORP and that Council address the shortfall in Rates and Annual Charges through a Special Rate Variation.

Extract from Operational Plan:

<u>Therefore the question should be answered: how has Council planned on addressing the aforementioned?</u>

1. Council has identified a number of properties it believes would be prudent to investigate for possible selling. These properties are as follows:

   - The Airport – Farming Land/ Operational Land;
   - The Tindale Units in Emmaville;
   - 13 Lots of Land in Abbot Street (Part of unused Road Reserve);
   - The Garden Court Building (after Co-location);
   - The Gum Tree Building (Internal Sale);
   - Jamesies Fuel and Fix (potentially in conjunction with the Church Street Office); and
   - "Highwoods".

[11] Page 4, Treasury Corporation New South Wales, Glen Innes Severn Council – Financial Assessment Benchmarking Report, release 21 March 2013, available at http://www.dlg.nsw.gov.au/dlg/dlghome/documents/tcorp/Glen%20Innes%20Severn%20Financial%20Assessment%20Report.pdf

[12] As above, Page 4 and 5.

[13] As above, Page 31.

The advantage of selling the identified properties are that they currently contribute significantly to the infrastructure back log (for example the Garden Court Centre requires $1.101 million to bring up to a satisfactory standard at 30 June 2012).

Therefore, the disposal of these properties will not only provide Council with additional capital to re-invest, but will also assist in reducing the infrastructure backlog. The elimination of these buildings will also decrease the cost associated with the maintenance thereof and provide Council with additional rates revenue on these lots.

2. Council is currently reviewing its light plant fleet with the intention of reducing its non-operational fleet by around ten (10) vehicles. This should contribute to a re-current reduction in expenditure which will allow Council to re-invest more funds into the operational plant fleet.

3. Restriction on operational expenditure increases for all areas apart from roads infrastructure maintenance (unless specifically required, such as salaries, superannuation etc). Council has endeavoured to limit all increases in operational expenditure to the 2012-13 financial year levels while increasing operational expenditure on Council 'owned' roads by 10% in the 2013-14 proposed budget.

4. Council has identified $990,000 in plant fund expenditure for operational fleet to improve the efficiency of the operational plant fleet, thereby reducing the cost of servicing roads and other infrastructure as well as improving the efficiency of Councils maintenance works.

5. Council has identified that it is substantially subsidising an area within the budget ("Long Day Care Service") in Glen Innes. For this reason, and due to the increasing deficit, a report has also been presented to Council to consider the future of the Gum Tree Glen Centre (or at least the Long Day Care service component). It is recommended that Council divorces itself from this function to save an estimated $200,000 per annum. (This saving could be viewed as representing in the order of 20% of the current annual roads maintenance budget provision.)

6. Council has identified the possibility that if it were to cease this "Long Day Care Service" function, the majority of the Aged and Disability Services staff could potentially co-locate into the Gum Tree Glen building. The estimated cost associated with this relocation (for the capital works) could be around $125,000 compared with the cost of renovating the Garden Court building to co-locate staff estimated at a cost of $800,000. Further, the co-location is expected to result in further operational savings as well as increasing efficiency. A report in this regard will be prepared for Council's consideration, further investigating the possibilities and potential associated with this proposal.

7. Council has identified the need to increase revenue sources for Drainage Works (which currently requires $700,000 to bring up to a satisfactory

standard) with required annual maintenance in the order of $99,000 per annum. A charge of $87.00 per assessment is to be introduced next financial year for the basins of Emmaville, Deepwater and Glen Innes. The aim of this charge is to address the degraded state of Councils drainage infrastructure. It is expected that this charge would raise in the order of $261,000 per annum (based on 3,000 assessments) which would fund the estimated maintenance/renewal expense associated with the drainage network.

8. It is recommended for Council to consider the possibility of a special rates variation to address the lower than average Farmland rates of $1,884.84 compared with the Group 10 average of $2,035.49 (at 2010/11 being the last comparative information released by the Division of Local Government). This should be compared with Inverell at $2,182.30, Gwydir at $3,702.66, Guyra at $2,018.56, Armidale at $2,272.22 and Tenterfield at $992.21. This equates to an average of $2,233.59 among our comparative neighbouring Councils (all 2010/11 averages based on the information released by the Division in November 2012). Based on a shortfall compared with neighbouring Councils of approximately $350 per assessment, Council would be able to raise an additional $350,000 per annum; which would provide a significant boost to the maintenance of rural roads. It would be reasonable to expect that the change to the state of rural local roads would be fairly evident within a number of years after implementation.

   If Council is to further investigate this alternative, Council must have a clear plan, indicating the benefit this would provide to the community – in particular the rural areas that may be affected by this increase. This plan would need to be communicated to the community in the community consultation process involved in applying for a Special Rates Variation.

The above-discussed items have been identified primarily as goals to be considered next year and will be brought to Council in an open, transparent and formal manner for further consideration. It should be noted that these items can assist Council in addressing the concerns identified and it is the cumulative effect of these initiatives year on year which must be considered.

8 Other information

8.1 Previous Instruments of Approval

If you have a special variation which is due to expire at the end of this financial year or during the period of the proposed special variation, when was it approved and what was its purpose?

Please attach a copy of the Instrument of Approval that has been signed by the Minister or IPART Chairman.

Not applicable.

8.2 Reporting to your community

The *Guidelines* set out reporting mechanisms that show your accountability to your community. Please tell us how you will go about transparently reporting to the community on the proposed special variation, should it be approved. Also indicate the performance measures you will use to demonstrate how you have used the additional funds (above the rate peg) generated by the special variation.

GISC Council regularly advertises works to be completed and current issues (as part of its Communication Strategy) in the local newspaper The Glen Innes Examiner each Thursday in a section called "Connecting with your Council". If Council is successful with its application for a SRV it will be communicated to the community here and a media release written.

GISC complies fully with the IP&R requirements in respect of reporting on the Delivery Program and the Budget (QBRS). The projected (budgeted) works are also reported annually as part of the budget preparation process and Council reports on these works on a quarterly basis as part of the QBRS.

Therefore the community will have the ability to review and monitor works as they progress.

8.3 Council resolution to apply to IPART

The Guidelines require the council to have resolved to apply for a special variation. Please attach a copy of the council's resolution to make a special variation application. Our assessment of the application cannot commence without it.

[Please refer Attachment W and X.]

Checklist of contents

The following is a checklist of the supporting documents to include with your Part B application:

Item	Included?
Relevant extracts from the Community Strategic Plan	☒
Delivery Program	☒
Long Term Financial Plan	☒
Relevant extracts from the Asset Management Plan	☒
TCorp report on financial sustainability	☒
Contributions Plan documents (if applicable)	☐
Media releases, public meeting notices, newspaper articles, fact sheets relating to the rate increase and special variation	☒
Community feedback (including surveys and results if applicable)	☒
Hardship Policy	☒
Past Instruments of Approval (if applicable)	☐
Resolution to apply for the special variation	☒
Resolution to adopt the Delivery Program	☒

9 Certification

10 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: Glen Innes Severn Council

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

General Manager (name): Hein Basson

Signature and Date:

21-2-2014.

Responsible Accounting Officer (name): Eric Brown

Signature and Date:

21 /2 /2014.

Once completed, please scan the signed certification and attach it to the Part B form before submitting your application online via the Council Portal on our website.