



Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

For applications for 2014/15

Issued October 2013

Coffs Harbour City Council

Date Submitted to IPART: **24 February 2014**

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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.

1.1 Completing the application form

To complete this Part B form, insert the council's response in the boxes and the area which is highlighted, following each section or sub-section.

Councils may submit additional supporting documents as attachments to the application. The attachments should be clearly identified in Part B and cross-referenced. We prefer to receive relevant extracts rather than complete publications, unless the complete publication is relevant to the criteria. Please provide details of how we can access the complete publication should this be necessary.

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

This application form consists of:

- ▼ Section 2 - Focus on Integrated Planning and Reporting
- ▼ Section 3 – Assessment criterion 1
- ▼ Section 4 – Assessment criterion 2
- ▼ Section 5 – Assessment criterion 3
- ▼ Section 6 – Assessment criterion 4
- ▼ Section 7 – Assessment criterion 5
- ▼ Section 8 - Other information
- ▼ Section 9 – Checklist of contents
- ▼ Section 10 – Certification.

1.2 Submitting the application

IPART asks that all councils intending to apply for a special variation use the Council Portal on our website to register as an applicant council and to submit their application.

The Portal is at http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt. A [User Guide](#) for the Portal will assist you with the registration and online submission process.

Councils intending to submit an application should notify us of their intention to apply by **cob Friday 13 December 2013**.

Councils should also submit their applications, both Part A and Part B and supporting documents, via the Portal. File size limits apply to each part of the application. For Part B the limit is 10MB. The limit for the supporting documents is 120MB in total, or 70MB for public documents and 50MB for confidential documents. These file limits should be sufficient for your application. Please contact us if they are not.

We also ask that councils also submit their application to us in hard copy (with a table of contents and appropriate cross referencing of attachments). Our address is:

Local Government Team
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Level 17, 1 Market Street, Sydney NSW 2000.

We must receive your application via the Council Portal and in hard copy no later than **cob Monday 24 February 2014**.

We will post all applications (excluding confidential documents) on our website. Councils should also post their application on their own website for the community to read.

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.

COUNCIL'S RESPONSE

Integrated Planning and Reporting Framework Reviews

Coffs Harbour is a Group 1 Council, having implemented the Integrated Planning and Reporting Framework on 1 July 2010.

Since its introduction, the framework has been subject to continuing review. This has included an ongoing review by the organisation, a DLG review (summary received in December 2010) and elements of a Promoting Better Practice Review (recommendations received July 2011).

A major review of Council's IPR framework was also required following the election of a new council in 2012. Principally, Council was required to review the Community Strategic Plan (*Coffs Harbour 2030*), the Delivery Program and the Long Term Financial Plan.

Community Strategic Plan Review – Coffs Harbour 2030

The review of the *Coffs Harbour 2030* Community Strategic Plan (CSP) in 2012/2013 included a range of engagement options providing the community and other stakeholders the opportunity to contribute and provide feedback on the proposed updates to the 2030 Plan. These options included:

- An on-line feedback forum www.coffs2030.com.au;
- A 2030 review stall at the Thursday Growers market;
- The Coffs Harbour 2030 photographic competition;
- Extensive media coverage in local newspapers and radio air time; and
- Communication via Council newsletters, website and rate notices.

The following contact figures reflect an increased awareness within the Community:

- 169 entries in the Coffs Harbour 2030 photographic competition;
- Over 500 views of the on-line feedback forum www.coffs2030.com.au; and
- 42 visitors to the Community Strategic Plan Growers market stall.

The reviewed 2030 Plan was placed on public exhibition from 12 April 2013 to 10 May 2013. Council subsequently adopted the reviewed *Coffs Harbour 2030 CSP* on 23 May 2013 - taking into consideration the community submissions made during the exhibition period. (Please see Attachment 1 for the Council minute adopting this document).

A full copy of the *Coffs Harbour 2030 CSP* (and supporting documentation) can be found using the following link:

www.coffsharbour.nsw.gov.au/Coffs-And-Council/our-future/Pages/2030_documents.aspx

The proposed Special Rate Variation (SRV) is a key element of Council's funding strategy to ensure the sustainable management of Council's infrastructure assets and works towards achieving a number of the outcomes identified within the *Coffs Harbour 2030 CSP*. The SRV is directly connected to the 2030 themes "Looking after our Community", "Moving Around" and "Places for Living".

Delivery Program 2013/2017

The Delivery Program is a four-year blueprint showing how Council's 41 Services – its 'principal activities' - respond to the Community Strategic Plan. It follows the thematic structure of *Coffs Harbour 2030*. All of the organisation's plans, projects, actions and funding allocations are directly linked to the Delivery Program.

A central feature of Council's 2013/2017 Delivery Program is a long term budget strategy that relies on Special Rate Variations in 2013/2014 and 2014/2015.

Special Rate Variation for 2013/2014

The 2013/2014 SRV, which was approved by IPART in June 2013, relates to an extension of an expiring SRV involving a Special Rate being applied to Business properties within the Coffs Harbour CBD for a further 10-year period. These additional rate funds will be used to fund a dedicated works program supporting community outcomes identified through the development of the Council's City Centre Masterplan.

The 2013/2014 SRV has no impact on Residential, Farmland or Business properties outside the Coffs Harbour CBD.

Special Rate Variation for 2014/2015

The proposed SRV for 2014/2015, identified in Council's 2013/2017 Delivery Program, is an important element of the funding solution to address Council's annual infrastructure renewal gap to ensure community expectations on service delivery are met.

Please refer to Attachments 2 and 3, being excerpts from Council's 2013/2017 Delivery Program, which identify the annual infrastructure renewal gap (\$6.2M) and the funding options available (including a SRV) to 'bridge this gap'.

The draft 2013/2017 Delivery Program was placed on public exhibition from 12 April 2013 to 10 May 2013.

Public consultation during this period included: meetings with management committees of council facilities; consultations with key community groups; public information and website displays, media releases and newspaper advertising. The engagement process encouraged the community to consider the draft document and to make submissions to Council on issues of interest and concern.

The draft 2013/2017 Delivery Program was adopted on 23 May 2013 – again taking into consideration the community submissions made during the exhibition period. (Please see Attachment 1 for the Council minute adopting this document).

2013/2023 Resourcing Strategy (Adopted May 2013)

Council's Resourcing Strategy sets out what resources (human, infrastructure and financial) it intends to allocate (via the Delivery Program) toward the achievement of objectives for which it is responsible under the Community Strategic Plan.

The 2013/2023 Resourcing Strategy demonstrates that Council's financial position is unsustainable, meaning that Council cannot continue to deliver the services it currently does to current standards, let alone achieve new objectives over and above these.

The 2013/2023 Resourcing Strategy (comprising of a ten-year Long Term Financial Plan (LTFP), a ten-year Asset Management Strategy (AMS) and a four-year Workforce Management Plan (WMP)) was placed on public exhibition from 12 April 2013 to 10 May 2013 in support of the reviewed *Coffs Harbour 2030* Plan and Delivery Program. Council adopted this Strategy on 23 May 2013. (Please see Attachment 1 for the Council minute adopting this document).

The 2013/2023 Resourcing Strategy includes commentary on Council's unsustainable financial position, how this position has developed over time, the options available to address the problem and a summary of actions to be undertaken over the next 12 months, including further community consultation on proposed funding solutions. Please refer to Attachments 4, 5 and 6 for related commentary from the Resourcing Strategy.

2014/2024 Resourcing Strategy (Adopted February 2014)

As mentioned above, the 2013/2023 Resourcing Strategy foreshadowed the development of a multi-faceted approach to address the critical issue of Council's financial sustainability in trying to deliver services to the community.

The Strategy went on to identify a number of actions to be taken in order to pursue these options.

The 2014/2024 Resourcing Strategy (please see Attachment 7 for introduction section) begins with a background reviewing our 'road to financial sustainability', including the outcomes of actions taken in pursuit of the options identified last year.

In summary, the first action (development of a continuous improvement program) was effected by Council's resolution of 14 November 2013 to undertake a 'Transformation to

Sustainability' (T2S) project (a detailed organisational diagnostic and business case development). Further details on this project are supplied in Section 7 of this application.

The remainder of the actions (Actions 2 to 6) have been progressed through Council's community engagement regarding Levels of Service that was undertaken in the latter part of 2013 and into 2014, the last step of which being the application for a proposed SRV.

An extensive community engagement process was undertaken to identify community priorities in regard to Council service levels and to see if the community was willing to pay more to maintain those programs. Consequently, the proposal for a SRV was included among a number of funding initiatives that inform the reviewed 2014/2024 Resourcing Strategy. Further details and outcomes on the community engagement process are included in Section 4 of this application.

The 2014/2024 Resourcing Strategy was adopted by Council on 13 February 2014.

The 2014/2024 Resourcing Strategy – with its associated SRV proposal – represents a sustainable plan to enable Council to help implement the strategies in the *Coffs Harbour 2030 CSP*.

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

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*.

COUNCIL'S RESPONSE

The Need and Purpose for the SRV

Council requires additional funding to achieve a sustainable level of service in terms of its infrastructure. To maintain current infrastructure condition and avoid continued deterioration over time – Council must spend an estimated \$6.2M over and above current funds for asset repair and renewal per annum.

Modelling of Council's long-term financial position demonstrates that Council's costs have, and will continue to, increase faster than our revenues (known as an “underlying operating deficit”). To address this issue, Council must generate additional funding (estimated at \$1.8M) per annum.

Therefore with these short-falls in funding combined Council has an estimated \$8M gap annually that must be bridged between what Council generates in revenues and what must be spent to maintain current infrastructure condition and levels of service for the community – a ‘Sustainable Position’.

The proposed SRV is a key element of Council’s funding strategy (as identified through Council’s IPR documents) to ensure the sustainable management of Council’s infrastructure assets. All additional revenue generated by the SRV (above the rate pegging allowances) will be used to fund additional asset maintenance and renewal works to close the annum shortfall in this expenditure (approximately \$6.2M) to support the delivery the services desired by the community.

The Need and Purpose of the SRV identified through IPR Framework

Connection to the Community Strategic Plan – Coffs Harbour 2030

The sustainable management of Council's infrastructure assets, works towards achieving a number of the outcomes identified within the *Coffs Harbour 2030* CSP and is directly connected to the 2030 themes "Looking after our Community", "Moving Around" and "Places for Living".

Relevant strategies within these themes include:

- Build pride and identity in Coffs Harbour as a community and a place;
- Ensure adequate maintenance and renewal of roads, footpaths and cycle-ways;
- Provide infrastructure that supports sustainable living and is resilient to climatic events;
- Provide public spaces and facilities that are accessible and safe for all;
- Provide safe and accessible play spaces for our children within each community;
- Improve the effectiveness of the existing transport system.

Identification through 2013/2017 Delivery Program

Council's 2013/2017 Delivery Program is based on Council delivering sustainable levels of service to the community and the funding options (including a proposed SRV for 2014/2015) for this delivery over the long term.

Please refer to Attachments 2 and 3 being excerpts from Council's 2013/2017 Delivery Program which identify the annual infrastructure maintenance and renewal gap (\$6.2M) and the funding options available to 'bridge this gap'.

Identification through 2013/2023 Resourcing Strategy

Council's 2013/2023 Resourcing Strategy acknowledged Council's unsustainable position and the fact that Council could not continue to deliver current services into the future. Options to address the issue included:

- Productivity improvements (changing the way services are delivered)
- New revenue opportunities (e.g. commercialisation of council services)
- Reductions in current levels of service delivery
- Additional rate income.

This Strategy went on to identify a number of actions to be taken in order to pursue these options.

Identification through 2014/2024 Resourcing Strategy

Council's recently adopted 2014/2024 Resourcing Strategy (please see Attachment 7 for introduction section) provides the outcomes of actions taken in pursuit of the funding options identified in the 2013/2023 Resourcing Strategy. A summary of these outcomes is provided in Sections 2 & 4 of this application.

The 2014/2024 Resourcing Strategy describes the means by which Council will provide the financial, workforce and asset resources required to implement the strategies established by the Community Strategic Plan.

The 'Sustainable Model' of the Long Term Financial Plan (LTFP) within this strategy includes additional funding to that available in the 'Base-Line Model'. This additional funding comes from the proposed SRV and productivity improvements and revenue opportunities to be identified via Council's 'Transformation to Sustainability' project.

The following table shows a summary of the proposed additional funding sources and additional expenditure relating to assets over the next three years.

Proposed Additional Funding & Asset Expenditure	Year 1	Year 2	Year 3
	2014/15	2015/16	2016/17
Funding Sources			
Proposed SRV income above the rate peg increase	2,019,924	4,081,999	6,204,633
Proposed funding from T2S Project	1,333,856	1,553,599	1,917,075
Subtotal	3,353,780	5,635,598	8,121,708
Asset Related Expenditures			
Additional Roads Maintenance	190,000	390,000	600,000
Additional Building Maintenance	160,000	330,000	500,000
Additional Asset Management Expenditure	60,000	130,000	200,000
Additional Road Rehabilitation	679,924	1,341,999	2,004,633
Additional Other Transport Asset Renewal	190,000	390,000	600,000
Additional Buildings Renewal	480,000	980,000	1,500,000
Additional Recreation Services Asset Renewal	260,000	520,000	800,000
Subtotal	2,019,924	4,081,999	6,204,633
Funding to Eliminate General Fund Operating Deficit	1,333,856	1,553,599	1,917,075
General Fund Budget Position (Balanced Budget)	0	0	0

The 'Sustainable Model' demonstrates that Council has the financial resources to deliver current services to current standards into the future.

The Workforce Management Plan demonstrates that, whilst noting several challenges, Council will have the workforce necessary to deliver current services to current standards into the future.

Council's Asset Management Strategy and associated planning documents have been prepared in accordance with funding levels projected within Council's 'Sustainable Model' LTFF.

Council's Asset Management Plans contain the following elements:

- The assets covered by each plan in terms of quantity, age, condition, value, etc.
- The levels of service provided by these assets now and the level of service forecast to be required in future, based on an analysis of future demand.
- Lifecycle management plans detailing how these assets will be maintained and renewed (and, where necessary, new assets acquired) so as to minimise the long-term costs of service provision.
- Funding projections to undertake these works that integrate with the 'Sustainable Model' in the LTFF.
- An improvement plan detailing actions to improve the way Council manages its assets.

Asset Management Plans for Transport, Building and Recreational Assets have been included as attachments (please see Attachments 8, 9 & 10) to this application – being the asset classes directly impacted by the proposed SRV.

If the special variation seeks funding for contributions plan costs above the development contributions cap, refer to Box 3.1.¹

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

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

- ▼ a copy of the council's section 94 contributions plan
- ▼ a copy of the Minister for Planning and Infrastructure's response to IPART's review and details of how the council has subsequently amended the contributions plan
- ▼ details of any other funding sources that the council is proposing to seek to use
- ▼ any reference to the proposed contributions (which were previously to be funded by developers) in the council's planning documents (eg, LTFP and Asset Management Plans (AMP))
- ▼ any necessary revisions to financial projections contained in the LTFP and AMP to reflect the special variation.

If the special variation seeks funding for contributions plan costs above the development contributions cap, set out below:

- ▼ details explaining how the council has established the need for a special variation to meet the shortfall in development contributions, and
- ▼ how this is reflected in the council's IP&R documents.

Not Applicable

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.

¹ See Planning Circular 10-025 dated 24 November 2010 at www.planning.nsw.gov.au and for the most recent Direction issued under section 94E of the *Environmental Planning and Assessment Act 1979*. See also Planning Circular PS 10-022 dated 16 September 2010.

COUNCIL'S RESPONSE

Community Strategic Plan – Coffs Harbour 2030

The review of Council's CSP, *Coffs Harbour 2030*, in 2012/2013 provided the community and other stakeholders the opportunity to contribute and provide feedback on the proposed strategies within the draft 2030 Plan.

The reviewed 2030 Plan was formally placed on public exhibition from 12 April 2013 to 10 May 2013. Council subsequently adopted the reviewed *Coffs Harbour 2030* CSP on 23 May 2013.

The proposed SRV is a key element of Council's funding strategy to ensure the sustainable management of Council's infrastructure assets and works towards achieving a number of the outcomes identified through the community engagement process.

The relevant strategies from the 2030 Plan that have a direct connection to the sustainable management of Council's infrastructure assets include:

- Build pride and identity in Coffs Harbour as a community and a place;
- Ensure adequate maintenance and renewal of roads, footpaths and cycle-ways;
- Provide infrastructure that supports sustainable living and is resilient to climatic events;
- Provide public spaces and facilities that are accessible and safe for all;
- Provide safe and accessible play spaces for our children within each community;
- Improve the effectiveness of the existing transport system.

2013/2023 Resourcing Strategy

Council's 2013/2023 Resourcing Strategy acknowledged Council's unsustainable position and the fact that Council could not continue to deliver current services into the future.

Funding options within the strategy to address this issue included:

- Productivity improvements (changing the way services are delivered)
- New revenue opportunities (e.g. commercialisation of council services)
- Reductions in current levels of service delivery
- Additional rate income.

The Strategy went on to identify a number of actions to be taken in order to pursue these options and to seek further community feedback on service levels and a willingness to pay more rates to maintain services.

2014/2024 Resourcing Strategy

Council's recently adopted 2014/2024 Resourcing Strategy provides the outcomes of actions taken in pursuit of the funding options identified in the 2013/2023 Resourcing Strategy. A summary of these outcomes is provided in Sections 2 & 4 of this application.

Community Engagement regarding Levels of Service – Budget Allocator

Action 1 from the Strategy, development of a program to identify, evaluate and implement opportunities for improvement, was actioned by Council at its meeting of 14 November 2013 in approving the 'Transformation to Sustainability' project.

The remainder of the actions (Actions 2 to 6) identified in the 2013/2023 Resourcing Strategy involved further Community Engagement regarding 'Levels of Service' and funding proposals which Council undertook from October of 2013.

At its meeting of 26 September 2013, Council noted its annual funding 'gap' and endorsed the principles of the Level of Service Community Engagement Process, adopting a 'Community Engagement Strategy' (please see Attachment 11 for this engagement strategy).

What differentiated this process from a previous Community Satisfaction Survey conducted in 2012 is that the community was enabled to understand the cost (\$) of service delivery, and thus to provide feedback on not only service level priorities, but also their willingness to pay for service delivery.

The outcomes from Part 1 of this engagement strategy were included in the report to Council of 28 November 2013 (please see Attachment 12). Feedback based on a statistically significant 'Community Reference Panel' indicated that the community values the services Council currently delivers and is willing to pay more to maintain these rather than see levels of service reduced – further information on this Reference Panel is included under Section 4 of this application.

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'S RESPONSE

Alternative Funding Options

By securing the proposed SRV in 2014/2015, Council can increase its current level of expenditure on asset maintenance and renewal without this impacting on existing funding resources that are already under strain in meeting community programs and services.

Section 94 Contributions

There are currently no suitable Section 94 funds available for the renewal of infrastructure assets. This type of funding is also not permitted to be spent on asset maintenance.

User Pay Options

Council undertakes a review of its 'user pay' structure on an annual basis to ensure an appropriate level of funding is obtained through this avenue. Council's LTFP projects 'user-pay' fees and charges to increase annually by approximately 3% - 4% which generally endeavours to cover the annual increases in costs of providing the service.

Loan Borrowings

Council's General Fund currently has no capacity to fund loan borrowings for asset maintenance and renewal.

Council's General Fund Debt Service Ratio (DSR) (as at 30 June 2013) is 6.47%. This ratio for General Fund will increase slightly over the next twelve months (to 7.62%) when Council is required to undertake two new borrowings totalling approximately \$4.7M to partly fund a compulsory land acquisition (under the provisions of the Land Acquisition – Just Terms Compensation – Act 1991) for open space/public recreation and to fund construction works for Stage 1 of the Jetty Foreshores Revitalisation project.

The loan for the compulsory land acquisition (\$2.5M) will be repaid over a ten-year term using associated Section 94 contributions.

The loan for Stage 1 Jetty Foreshore Revitalisation works (\$2.2M) has allocated funding and Council is currently seeking an interest subsidy for part of this loan through the State Government's Local Infrastructure Renewal Scheme (LIRS).

Council has an adopted Loan Borrowing policy to ensure loan borrowings are undertaken in a financially responsible manner. This policy includes the following elements:

- Council will not borrow money to fund operating expenditure. This type of expenditure should be funded through operating revenue streams.
- Council will not borrow money to fund the acquisition, replacement or renewal of assets that is expected to occur on an annual (or similar) basis at approximately the same level each year (i.e. recurrent capital works such as road resurfacing, plant replacement, etc.). This type of expenditure shall be funded through operating revenue streams.
- Council's goal is to achieve a financial indicator of less than 10% for the Consolidated DSR, which is a key performance indicator of the Division of Local Government.

Funding Options – 2013/2023 Resourcing Strategy

Council's 2013/2023 Resourcing Strategy acknowledged Council's unsustainable position and the fact that Council could not continue to deliver current services into the future.

Funding options to address the issue included:

- Productivity improvements (changing the way services are delivered)
- New revenue opportunities (e.g. commercialisation of council services)
- Reductions in current levels of service delivery
- Additional rate income.

Funding Options - 2014/2024 Resourcing Strategy

Council's recently adopted 2014/2024 Resourcing Strategy provides further direction on the proposed funding options identified within the 2013/2023 Resourcing Strategy and Council's 2013/2017 Delivery Program.

The 2014/2024 Resourcing Strategy provides the financial, workforce and asset resources required to implement the strategies established by the Community Strategic Plan.

The 'Sustainable Model' of the Long Term Financial Plan (LTFP) within the 2014/2024 Resourcing Strategy includes additional funding to that available in the 'Base-Line Model'. This additional funding comes from the proposed SRV and productivity improvements and revenue opportunities to be identified through Council's 'Transformation to Sustainability' project.

Transformation to Sustainability Project

Council has acknowledged the need to move to a position of financial sustainability and is undertaking a range of activities aimed at improving operational efficiency and effectiveness as well as increasing revenues from sources other than rates. The independent 'Transformation to Sustainability' (T2S) project will help bring many of the current initiatives together in a focused business plan and consider the investment required if Council is to realise the benefits identified.

The T2S project provides a framework to identify opportunities across all Council services to improve operations (productivity and efficiency, increase external revenues), to evaluate these opportunities and to ensure they are implemented effectively.

This project alone will not 'bridge' the entire funding 'gap' to enable Council to become financially sustainable but is considered an important element of the total funding solution to achieve this position whilst avoiding the full impact of trying to fund the \$8M gap through reducing levels of service and rate increases.

An external consulting firm has been appointed and is currently conducting an organisational diagnostic to enable the development of a report that includes a detailed business case and proposed implementation plan. It is anticipated that this phase of the project should be completed by April / May 2014.

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 RESPONSE

Council's Unsustainable Financial Position

Council's 2013-2023 Resourcing Strategy (began with the following statement under the heading 'Council's unsustainable position' :

"Council cannot continue to deliver the services it currently does to the current standards, let alone achieve new objectives over and above these."

As noted in the 2013-2023 Strategy, two key factors, not uncommon to local government authorities, were the main contributors to this unsustainable position:

- A widening gap between expenditure and revenues, and
- The deterioration of community infrastructure

The 'widening gap' between expenditure and revenues arises from:

- State Government 'Rate Pegging': legislation that has, over the last 30 years, meant increases in revenue has not always kept pace with inflation or costs for construction.
- Cost Shifting: the latest report commissioned by LGNSW found that as at 2010/2011 Council was responsible for a number of extra services that were previously the responsibility of State or Federal Government and that these cost Coffs Harbour City Council approximately \$4.4M each year to deliver.
- Community Expectations: Council now delivers a wider range of services than it did in the past.

With regards to deterioration of infrastructure, Council is the 'custodian and trustee' of public assets including transport, water, sewerage, stormwater drainage, buildings and recreation assets with a replacement value of around \$2 Billion.

The competing financial pressures noted above have led to a gradual reduction in funding for infrastructure repair and renewal over a number of years to the point where Council cannot continue to deliver the services it currently does to the current standards, let alone achieve new objectives over and above these.

Council's Long Term Financial Plan

Council's ten-year 'Base-Line' LTFP budget projections show ongoing General Fund deficit positions. Without the proposed SRV, Council does not have the funding capacity to undertake the required works to stop the further deterioration of community infrastructure.

In simple terms, if the proposed SRV is approved, Council will be able to reduce further asset deterioration through a significant increase in its annual asset maintenance and renewal expenditure.

The Financial Position of General Fund

Council's 'General Fund' continues to be in a poor financial position, having minimal untied revenues to allocate to new or expanded operational programs and to capital works.

Council's more recent revenue and expenditure trends (Operating Result) for the General Fund are summarised in the following table:

\$'000	2008/09	2009/10	2010/11	2011/12	2012/13
Revenue	76.502	86.394	102.611	88.475	103,401
Revenue (ex Capital Revenue)	66.937	71.335	82.744	76.512	96,183
Expenditure	79.846	83.690	93.588	91.119	108,699
Operating Result	(3.344)	2.704	9.023	(2.644)	(5,298)
Operating Result before Capital	(12.909)	(12.355)	(10.844)	(14.607)	(12,516)

The Financial Position of Water and Sewer Funds

Water supply and sewerage infrastructure makes up \$995M (around half) of the replacement value of Council assets. Under the NSW Local Government Act, 1993 these services are funded by specific charges and accounted for distinct from "general" activities funded by ordinary rates.

Over the past decade, Council has made substantial investments in the provision of new water and sewerage infrastructure including the construction of a \$60M Water Treatment Plant at Karangi, a \$90M Water Reclamation Plant at Coffs Harbour and (with our neighbours, Clarence Valley Council) the \$180M Shannon Creek Dam and Regional Water Supply Scheme.

These investment decisions will underpin the social, environmental and economic future of the City, ensuring the expected level of service can be delivered. The decisions were supported by 30 year financial plans demonstrating that Council could repay the substantial loans required via water and sewerage charges (initially requiring an increase, but then held to around CPI).

The same approach is clearly required for General Fund to address the 'other half' of Council's infrastructure portfolio – transport, drainage, buildings and recreation assets together valued at around \$1 Billion – which similarly underpin the future of the City, ensuring that current services can be provided into the future.

The Sewerage Fund for 2012/2013 had an operating deficit of \$4.477M and the Water Fund had an operational deficit \$3.275M after deducting capital grants and contributions.

Both Water and Sewer funds in-line with the Council's Long Term Financial Plans are expected to incur deficits over the next two to three years as cash reserves are eroded to meet loan repayments related to major augmentation works, which have been completed for the Water Fund and are nearing completion for the Sewer Fund.

The operational results of the Water and Sewer Funds will improve significantly over the next three years, primarily due to reducing loan repayments. The use of cash reserves to meet these deficits has enabled the annual rates and charges increases to be held at reasonable levels.

T-Corp's Financial Assessment & Benchmarking Report

In support of the Independent Review of Local Government currently underway, NSW Treasury Corporation (T-Corp) was engaged to undertake a financial assessment of NSW councils to evaluate:

- The financial capacity of the Council to undertake additional borrowings, and
- The financial performance of the Council in comparison to a range of similar councils and measured against prudent benchmarks.

An external assessment of Coffs Harbour City Council's financial position was undertaken by the T-Corp in 2012.

T-Corp assessed Coffs Harbour City Council as follows:

- Financial Sustainability Rating (FSR): **Weak**
- Outlook: **Negative**.

A 'Weak' FSR rating was given to councils with the following characteristics:

- A local government with an acceptable capacity to meet its financial commitments in the short to medium term and a limited capacity in the long term.
- It has a record of reporting moderate to significant operating deficits with a recent operating deficit being significant. It is unlikely to be able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, without the need for significant revenue and/or expense adjustments.
- The expense adjustments would result in significant changes to the range of and/or quality of services offered.
- It may experience difficulty in managing core business risks.

This assessment further highlights the inability of Council's 'General Fund' to afford any new capital works. Council is currently undertaking a number of measures to improve the sustainability of the General Fund (see Section 7 - Productivity Improvements and Cost Containment Strategies).

The following statement is from Council's 'Financial Assessment Report' produced by T-Corp in October 2012 (Executive Summary – page 4):

"The key observations from our review of Council's 10 year forecasts for its General Fund are:

- *The General Fund is likely to be unsustainable in the long term. Forecast expenses outstrip revenue, which leads to an increasing deficit each year*
- *The General Fund will not generate sufficient funds for capital expenditure to match depreciation of its assets. It is likely that Council will need to review current service levels, or raise additional revenues to generate funds to keep infrastructure to their current standards".*

The following statement on Benchmarking was also made by T-Corp in the same report (Executive Summary – page 5):

"In respect of the Benchmarking analysis T-Corp has compared the Council's key ratios with other councils in DLG Group 5. The key observations are:

- Council's financial flexibility as indicated by the Operating Ratio and Own Source Operating Revenue Ratio are generally below the group's average*
- Council currently is more heavily geared than its peers with its DSCR and Interest Cover Ratio below the group average though in the medium term Council is forecasting marginally improving ratios to be close to benchmark*
- Council was in a sufficient liquidity position though this is expected to marginally deteriorate in the medium term*
- Council's performance in terms of its Asset Maintenance Ratio and Infrastructure Backlog are stronger than its peers though they are weaker than the benchmarks".*

Please see Attachments 13 & 14 for the complete Financial Assessment and Benchmarking Reports from T-Corp.

DLG Infrastructure Management Assessment

One of the actions of the NSW 2021 State Plan was to undertake an Infrastructure Audit of NSW councils.

The key objectives of the Audit were to:

- Provide information in relation to the infrastructure backlog in NSW
- Assess the reliability of the information provided by councils to determine the backlog
- Identify trends in infrastructure needs by area and asset type
- Identify current infrastructure risk exposure.

The Audit classifies Coffs Harbour City Council as '**Weak**' in terms of Infrastructure Asset Management and identifies the cost to bring our infrastructure to a satisfactory standard as \$77M.

Council's Infrastructure Backlog

Council's preference at the present time is to reduce unfunded borrowing liabilities in the General Fund, which will have a positive impact on its long-term financial sustainability and thereby places Council in a better position to be able to selectively use borrowings for major infrastructure renewal projects. This will have the added advantage of reducing Council's current level of infrastructure backlog.

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

COUNCIL'S RESPONSE

The Financial Assessment Report undertaken by T-Corp appears to go to 'the heart' of the matter, and reflects Council's own assessment of the level of challenge it faces in achieving financial sustainability.

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).

COUNCIL'S RESPONSE

Key Financial Indicators (KFI) – General Fund

Please see Attachment 15 which shows the above mentioned Key Financial Indicators (for General Fund) projected for the next ten-years 'With' the proposed SRV (produced by Council's 'Sustainable' LTFP).

Please see Attachment 16 which shows the above mentioned Key Financial Indicators (for General Fund) projected for the next ten-years 'Without' the proposed SRV (produced by Council's 'Base-Line' LTFP).

Operating Balance Ratio Percentage

If the proposed SRV is approved, this ratio will increase as revenue will increase by the proposed additional rate income - thereby increasing both the operating revenue and net operating result.

Unrestricted Current Ratio

If the proposed SRV is approved, this ratio will increase.

Rates and Annual Charges Ratio Percentage

If the proposed SRV is approved, this percentage will increase slightly.

Debt Service Ratio

If the proposed SVR is approved, this ratio will show a favourable decrease, as the revenue from continuing operations will increase due to the additional rate income.

Broad Liabilities Ratio

If the proposed SVR is approved, this ratio shows a favourable decrease as renewal works reduce the annual infrastructure 'gap' and additional rate income has a positive impact on net financial liabilities.

Asset Renewals Ratio

If approved, the proposed SRV will fund an additional asset renewal works program - resulting in significant increases to this ratio when compared to ratios under the 'Base-Line' Financial Model.

Other Key Financial Indicators (KFIs) Reported by Council

Council in April 2012 adopted 13 Key Financial Indicators (KFI) which are monitored and reported to Council on an annual basis.

These indicators are used as financial health checks to monitor the operational liquidity (short term focus), fiscal responsibility (elected term focus) and financial sustainability (long term / intergenerational focus) of the Council. The indicator targets have been derived through a combination of management policy, DLG recommendations and industry benchmarking.

These ratios (detailed in the following table) are monitored on a consolidated and individual fund basis. Some of these KFIs are in addition to the Financial Indicators projected by Council's LTFP models.

Key Financial Indicator	Council Target
Unrestricted Current Ratio	2:1
Working Capital (excluding Internal Restrictions)	> \$1,000,000
Cash Flow Adequacy Ratio (measures the ability of cash from operations to pay for asset purchases & loan repayments)	> 1
Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage	< 7%
Operating Result adjusted for Renewal Costs	Break even over 5 years
Own Source Revenue Ratio (Income excluding grants & contributions as a % of total income)	65%
Employee Costs as a % of Rates, Annual Charges & United Grants	Between 55% - 75%
Rates & Annual Charges Coverage Ratio	> 40%
Debt Service Ratio (General Fund)	< 10%
ELE Funding Ratio	20%
Building & Infrastructure Renewal Ratio	> 100%
Operating Balance Ratio	> 0%
Broad Liabilities Ratio	< 100%

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

Please Note: A CAPEX review will be required for the renewal works for the Woolgoolga Swimming Pool. These works are not likely to commence until 2017/18.

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 documents² that the council has:

- ▼ 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

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

- ▼ 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.

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

The council should have explained to its community:

- ▼ that there is a special variation due to expire at the end of this financial year or during the period covered by the proposed special variation
- ▼ that, if the special variation were not approved so that only the rate peg applied, the year-on-year change in rates would be lower, or that rates may fall
- ▼ if applicable, that the expiring special variation is being continued (in full or in part), in the sense that it is being replaced with another that may be either temporary or permanent, or that the value is included in the percentage increase being requested in the following year.

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.

COUNCIL'S RESPONSE

The Consultation Process – “Having the Right Debate”

Council's 2013/2017 Delivery Program and 2013/2023 Resourcing Strategy foreshadowed the development of a multi-faceted approach to address the critical issue of Council's financial sustainability in trying to deliver services to the community.

Council's options to address the \$8M 'financial sustainability gap' (comprising a \$6.2M shortfall in funding for infrastructure repair and renewal) if service levels are to be maintained (and on-going General Fund operating deficits of approximately \$1.8M) were identified in the 2013/2023 Resourcing Strategy as being:

- Productivity improvements (changing the way services are delivered)
- New revenue opportunities (e.g. commercialisation of council services)
- Reductions in current levels of service delivery
- Additional rate income

This Strategy also identified a number of actions (see actions below) to be taken in order to pursue these options which included community engagement processes to seek feedback on two fundamental questions:

1. What are our (the community's) service delivery priorities?
2. What are we (the community) willing to pay to enable these to be delivered?

ACTION 1: Develop and implement continuous improvement program to work up, determine acceptance or otherwise, and monitor implementation of Opportunities for Improvement.

This 'continuous improvement program' was actioned by Council at its meeting of 14 November, 2013 in approving 'phase 1' of the 'Transformation to Sustainability' project. (Please refer to Section 7 of this application for more details on this project).

ACTIONS 2 & 3: Refinement of “minimum” option of Councils service delivery model, where \$6M is cut from existing budgets in order to address Council's sustainability challenge, with a focus on clear service level descriptions for each service (AND) Finalisation of interactive program modelling the interaction between service levels and rates.

Council at its meeting of 26 September 2013 endorsed a 'Level of Service – Community Engagement Process' (please see Attachment 11 for this strategy). The objective of the engagement strategy was to seek community feedback on preferred levels of service and proposed funding solutions to meet those service levels.

Community engagement was undertaken in a two-phase process with the first phase assessing preferred levels of service and a willingness to pay more rates via submissions made through Council's 'Budget Allocator' survey.

The 'Budget Allocator' tool was utilised to gather community feedback on all services funded by the general ordinary rate. The 'Budget Allocator' enabled the community to understand the cost (\$) of service delivery, including the impact on the average residential rate, allowing participants to balance their service priorities against what they were willing to pay for them.

The 'Budget Allocator' was made available to the open public through Council's website from 8 to 29 of October 2013. Council promoted the availability of this 'engagement tool' through a number local media channels including newspaper and radio advertisements. Council staff also attended a market stall in the CBD to explain the survey 'face-to-face' as well as encouraging people at the market to participate in the survey process.

In addition to the 'open' version of the Budget Allocator - Council engaged Jetty Research (an independent marketing research agency) to recruit 500 people who were representative of the local government area in terms of age and where they live.

This 'community reference panel' was recruited to provide Council with added confidence (statistical validity) that the feedback received using the same 'engagement tool' was representative of the community as a whole.

The outcomes of this engagement process were included in a report to Council of 28 November 2013 (please see Attachment 12) and are also summarised in Section 4.3 of this application.

ACTIONS 4, 5 & 6: Develop community engagement strategy regarding the sustainability challenges Council faces and the need to have the "right debate" about service levels and rates (AND) Finalise a Resourcing Strategy that sets out proposed changes to service levels and proposed rate increases for consideration by Council in December 2013 regarding whether or not Council will seek IPART approval to apply for a Special Rate Variation.

The second phase of the engagement process sought community feedback on proposed steps to be taken by Council to adopt a financially sustainable position, including the proposal for a SRV and further funding options to close the remainder of the funding 'gap'.

Council in this phase engaged the community through various media releases, a mail-out to all ratepayers (approx. 26,500 letters), e-newsletters, two information stalls (Growers Market and Harbour-side Market) and Council's page in The Coffs Coast Advocate – all of which had a focus on seeking feedback via a 'proposed rate rise' survey. (Please see Attachments 17 to 22 for engagement material, including the letter sent to all ratepayers).

The survey (which was made available in both on-line and hard copy formats) also allowed participants to add additional comments in regards to their survey response.

The survey had a simple approach, asking the Community if they would support Council applying for a rate increase over the next three years to help pay for ongoing renewal and maintenance of the assets needed to deliver services to the community – please see Attachment 23 for a hardcopy version of the survey.

The survey was open for nearly seven weeks from the 9 December 2013 to 24 January 2014.

In addition to the 'open public' survey, Council again separately engaged the 'community reference panel' with the same survey.

The outcomes of this engagement process were included in a report to Council of 13 February 2014 (please see Attachment 24) and are also summarised in Section 4.3 of this application.

All communications also made reference to a dedicated area on Council's website titled 'Road to Financial Sustainability' which contains more 'in-depth' information about Council's current financial position, the proposed options to address this issue and potential impacts on ratepayers.

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.

COUNCIL'S RESPONSE

Funding Alternatives - 2013/2023 Resourcing Strategy

Council's 2013/2023 Resourcing Strategy acknowledged Council's unsustainable financial position and the fact that Council could not continue to deliver current service levels into the future.

Funding options to address this issue within the strategy included:

- Productivity improvements (changing the way services are delivered)
- New revenue opportunities (e.g. commercialisation of council services)
- Reductions in current levels of service delivery
- Additional rate income

The Strategy identified a number of actions to be taken in order to pursue these funding options and to seek further community feedback on service levels and a willingness to pay more rates to maintain services.

Funding Option – Reductions in current Levels of Service Delivery

At its meeting of 26 September 2013, Council adopted a 'Community Engagement Strategy for Levels of Service'.

In accordance with this engagement strategy, a "Budget Allocator" tool was utilised to gather community feedback on all services funded by the general ordinary rate.

The 'Budget Allocator' enabled the community to understand the cost (\$) of service delivery, including the impact on the average residential rate, allowing participants to balance their service priorities against what they were willing to pay for them.

The outcomes of this engagement process were included in a report to Council of 28 November 2013 (please see Attachment 12).

Feedback based on a statistically significant 'community reference group' indicated that the community 'valued' the services Council currently delivers and is willing to pay more to maintain these rather than see levels of service reduced.

Funding Option - Productivity Improvement / New Revenue Opportunities

Council needs to move to a position of financial sustainability and is undertaking a range of activities aimed at continuing improvement to operational efficiency and effectiveness as well as increasing revenues from sources other than rates.

Council has undertaken an extensive internal review of all its services to see how they can be further improved and made as cost-effective as possible.

In addition, a 'Transformation to Sustainability' (T2S) project is underway that will assist in driving service improvements we have identified and continuing the pursuit of further improvements to services in terms of cost-effectiveness and productivity. (Please refer to Section 7 of this application for more details on these processes).

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.

COUNCIL'S RESPONSE

Feedback from Phase 1 - Preferred Levels of Service (Budget Allocator)

The first-phase of community engagement assessed preferred levels of service and a willingness to pay more rates via submissions made through Council's 'Budget Allocator' survey.

The 'Budget Allocator' tool was utilised to gather community feedback on all services funded by the general ordinary rate. The 'Budget Allocator' enabled the community to understand the cost (\$) of service delivery, including the impact on the average residential rate, allowing participants to balance their service priorities against what they were willing to pay for them.

The tool included a number of Level of Service (LoS) options for each operational service:

1. Increase Level of Service
2. Maintain current Level of Service
3. Mid-range decrease to Level of Service
4. Minimum Level of Service

Given the need to increase funding for asset repair and renewal only two Levels of Service option were offered for infrastructure:

1. Enhanced Level of Service
2. Sustainable Level of Service

To enable people to make informed choices, the tool included a description of what each level of service option would actually look like.

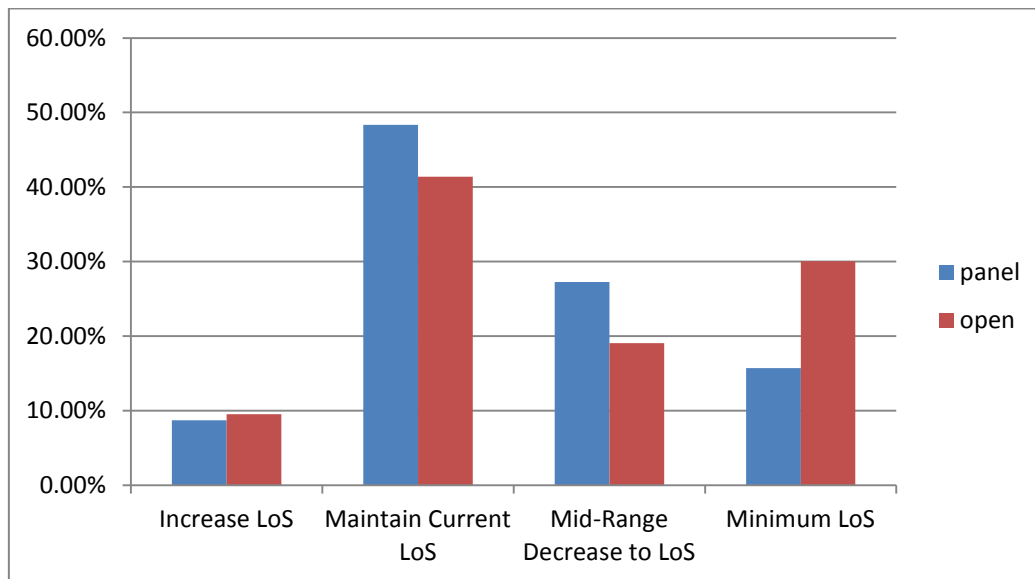
Participants could also provide comments on particular services, service options and the process overall.

The cost of selections, including the impact on the average residential rate, was also indicated during the survey, enabling participants to balance their service priorities against what they were willing to pay for them.

In total, 282 people completed the survey. The feedback with regards to each service is included in the Council report from 28 November 2013 (please see Attachment 12).

Comparison between 'Open Public' and 'Reference Panel' Feedback

When the graphs from the open budget allocator are compared against those of the reference panel, there is a clear difference between the two, particularly on some services. As an example, the responses for the Library service are presented below.



The graph from the reference panel (in blue) is closer to what is often referred to in statistics as a 'bell curve'. There is a 'majority' opinion (48% want the current level of service maintained), with lesser amounts of people preferring an increased or decreased level of service.

In contrast to this, the graphed results from the open public (in red) suggest that there are two distinct groups who have participated in the 'open public' survey:

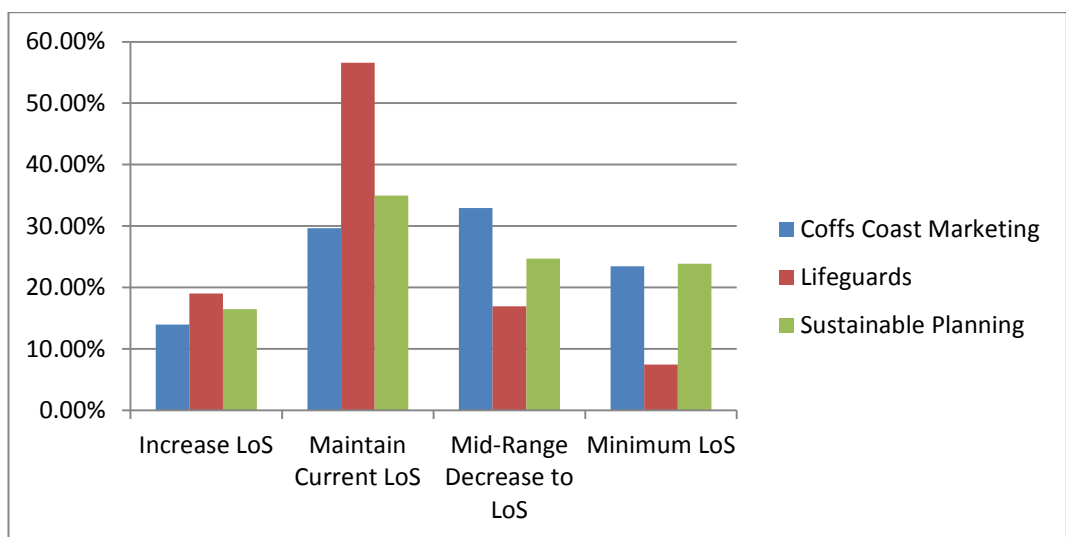
- One group who value / use the service (and are willing to pay more for it) and
- A second group who do not value / use the service (and would prefer to avoid a rate increase)

The Library service was one of the few service areas who 'formally' notified its stakeholders of the community engagement process around levels of service via the Library e-newsletter. Given that the library has over 14,000 active members and subscribers to the Library e-newsletter are over 3,000 people, the potential for a 'skewed' response is clear given that only 282 people participated in total.

Feedback from the reference panel is certainly more representative of the general community.

Comparison between Services and Consensus on Value

The most basic feature differentiating feedback from the reference panel between services is the shape of the bell curve. Compare, for example, Lifeguards against Coffs Coast Marketing and Sustainable Planning.



The bell curve for Lifeguards is 'sharp' - 56% of the community wants the current level of service maintained. There is a strong consensus. Council can be confident that maintaining the current level of service for lifeguards is a priority for the community generally.

In contrast to this, the bell curves for Coffs Coast Marketing and Sustainable Planning services are 'round', demonstrating a low level of consensus.

In the case of Coffs Coast Marketing, the difference between maintaining current level of service and a mid-range decrease is so small it falls within the +/- 6 per cent margin for error. Opinions differ similarly across all options for Sustainable Planning, with half of respondents choosing a decrease in level of service whilst the other half chose to retain or increase it.

General feedback from the 'Reference Panel'

There are no services which the reference panel gave a strong preference for a reduction in level of service and so, conversely, it appears respondents were willing to pay to maintain current service levels.

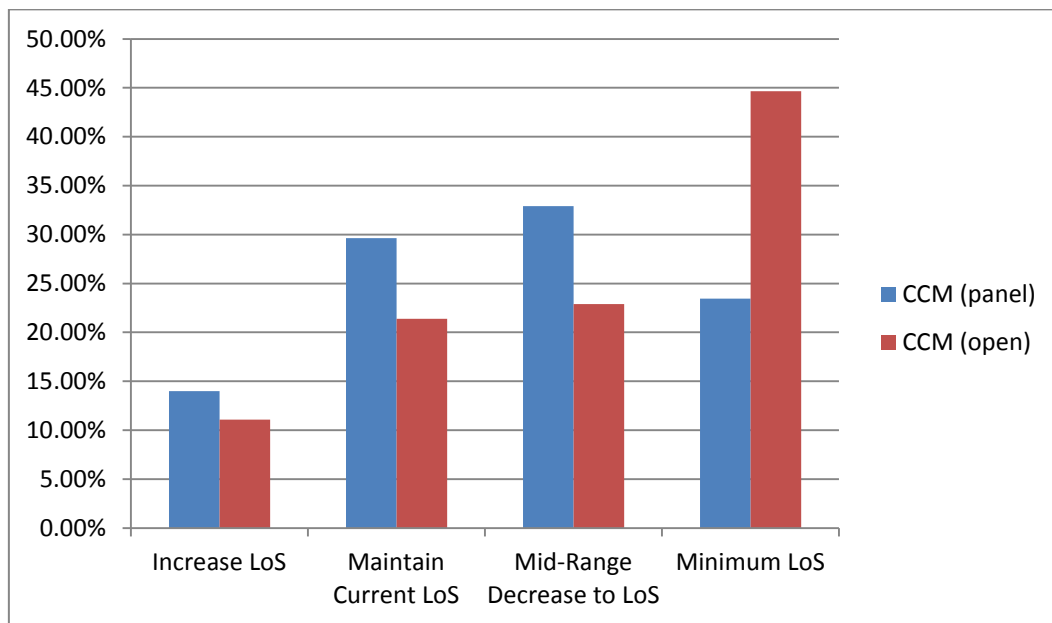
Even those services (Coffs Coast Marketing and Economic Development) which did not see the most 'votes' for maintaining the current level of service were only marginally so. 'Votes' for current levels of service was only 2% to 3% lower than a mid-range decrease (within the margin for error). Even if this is the case, Council should not decrease the level of service for these services based on this feedback alone.

Whilst acknowledging there is stronger consensus on some services than others, the majority of the 'community reference panel' indicate a willingness to pay more rates for Council to maintain its current levels of service.

General feedback from the 'Open Public'

Unsurprisingly, it is those services that indicate a low level of consensus from the reference panel that received a clear preference for a reduction in level of service to a minimum (and thus avoidance rate increases) from the open public version of the budget allocator survey.

As an example, the graph below contrasts the responses for Coffs Coast Marketing: there is clearly low consensus amongst the reference panel (a 'round' bell curve), and the open response clearly prefers a minimum level of service to avoid a SRV. A similar response was received for Economic Development.



General indications regarding Infrastructure Repair and Renewal

As noted above, a 'sustainable' level of service was the minimum that could be selected for infrastructure repair and renewal (i.e. participants could not choose to maintain the current unsustainable level of service).

The increase in expenditure to provide the 'sustainable' level of service over and above current budget totalled \$6.2M across all classes of general fund infrastructure.

These cost increases could only be 'balanced' if respondents selected the 'minimum level of service' for all non-infrastructure related services.

A significant number of comments expressed concern and frustration with their inability to avoid a SRV. Whilst this is understandable, the tool simply presents Council's financial challenges as they truly are.

Clearly, a significant proportion of the community wants to see Council spend more on infrastructure. Interestingly, this message was even clearer in feedback from the 'open public' version than it was from the 'reference panel'.

In summary, it would appear that Council's efforts to achieve a sustainable position for infrastructure services (i.e. to maintain current levels of service, which necessitates increased funding for repair and renewal) is supported by the majority of participants in both the open public and reference panel groups, despite the implications this has in terms of either reductions in levels of service for other services or rate increases.

Feedback from Phase 2 – 'Proposed Rate Raise' Survey

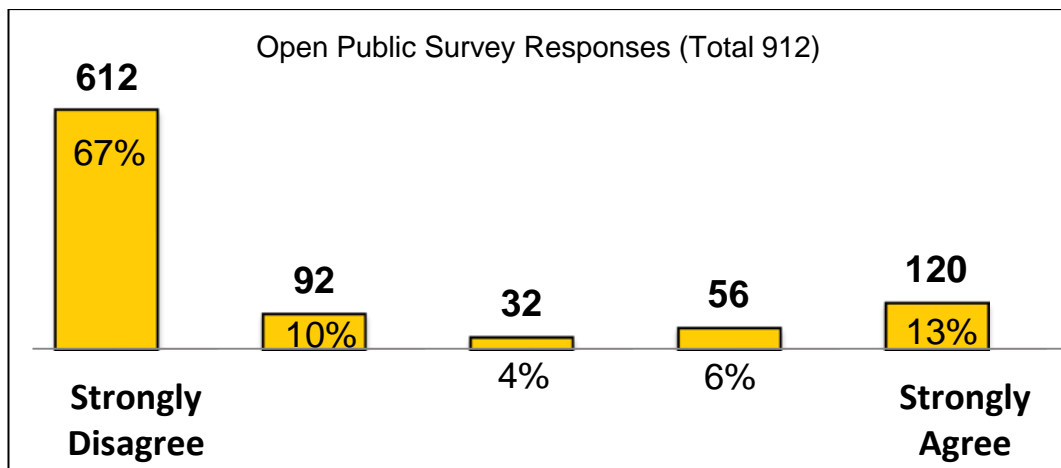
Council in phase-two engaged the community through various communication channels – all of which had a focus on seeking feedback via a 'proposed rate rise' survey.

The survey had a simple one-question approach and asked if the Community would support (Agree or Disagree) Council applying for a rate increase over the next three years to help pay for ongoing renewal and maintenance of the assets needed to deliver services to the community (please see Attachment 23 for a hardcopy version of the survey used).

Results from 'Open' Public Survey

In total, 912 people completed the 'open public' survey. The results from the open survey are shown in Graph 1 below. As shown, 67% of respondents strongly disagree with the proposed SRV while 13% strongly agree.

Graph 1 – Results from Open Public Survey



The following table shows a summary of the type of comments received from the open public when completing the survey.

Request for Council Expenditure Cuts	36%
Concerns about Affordability	19%
Support Proposal - With Comments & Suggestions	16%
Reallocation of Funding to 'Core Services'	11%
Can't see Value for Rates for their Property	10%
Lack of Services for Red Rock, Mullaway, and Corindi Areas	5%
Approach State/Federal Government for Assistance	3%

Results from Community Reference Panel

In addition to the 'open public' survey, Council separately engaged its 'community reference panel' with the same 'proposed rate rise' survey to provide Council with added confidence that the feedback received was representative of the community as a whole.

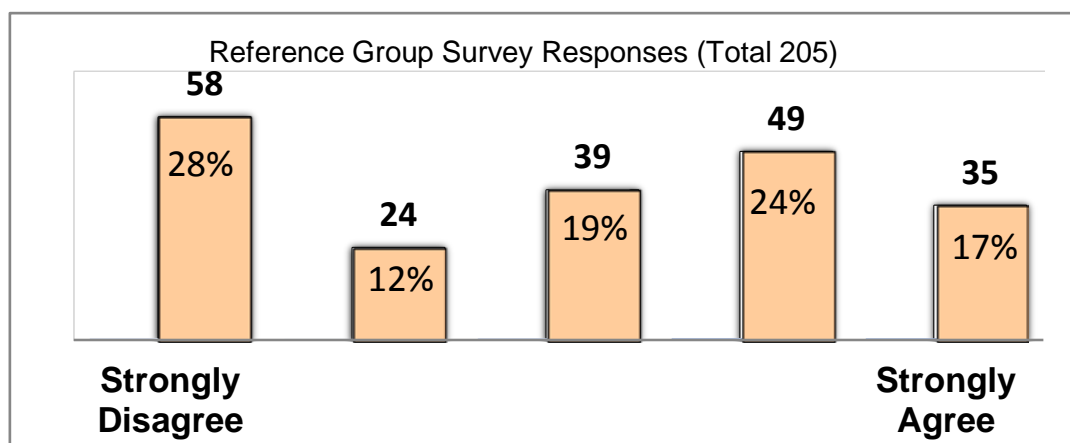
Out of a total of 467 panel members, 205 (or 44%) members completed the same survey. The feedback from the reference panel is shown in Graph 2 below.

Based on an approximate LGA population of 70,000, the reference panel survey results have a margin for error of approximately +/- 6% at the 95% confidence level.

It is important to note that the 'open public' results can in no way be considered statistically random (and therefore representative of the general community) because it is subject to bias by particular interest groups, a sampling error cannot be applied.

As shown from this graph there seems to be a more balanced response to the survey question.

Graph 2 – Results from Community Reference Group



The following table shows a summary of the type of comment received from the Reference Panel when completing the survey.

Support Proposal	33%
Request for Council Expenditure Cuts	26%
Concerns about Affordability	22%
Can't see Value for Rates for their Property	9%
Reallocation of Funding to 'Core Services'	9%
Lack of Services for Red Rock, Mullaway, and Corindi Areas	1%

Written Submissions Received

In addition to the comments received via the 'proposed rate rise' survey, Council received 47 written submissions on the funding proposals put forward.

The majority of these submissions included comments opposing the SRV proposal – often sighting reasons relating to poor council service or asset maintenance.

Council has formally responded to all written submissions – and referred any identified service and / or maintenance issues to the relevant service areas of Council for further investigation.

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.

COUNCIL'S RESPONSE

Considering the Impact on Ratepayers

The first-phase of Council's community engagement assessed preferred levels of service and a willingness to pay more rates via submissions made through Council's 'Budget Allocator' survey.

The 'Budget Allocator' enabled the community to understand the cost (\$) of service delivery, including the impact on the average residential rate, allowing participants to balance their service priorities against what they were willing to pay for them.

The second-phase of community engagement involved not only a letter to all ratepayers but a number a media releases and newspaper advertisements which provided information on the rate impacts of the proposed SRV. Council had a consistent approach in its communications with the community in that it showed not only impacts on the ordinary general rate but the total rate bill (inclusive of annual and usage charges) for the average ratepayer (please see Attachments 19 and 21 for samples of engagement material showing proposed impacts on ratepayers).

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.

COUNCIL'S RESPONSE

Results from the Community engagement process in regards to the proposed rate increase were considered by Council at its meeting of 13 February 2014.

In this report Council acknowledges that ratepayer affordability is an important consideration when making any decision to increase rates. Council also acknowledged that increasing rates is only part of the solution to becoming financially sustainable - Council needs to reduce costs and find further efficiencies in regards to service delivery.

As detailed in Section 7 of this application, Council has undertaken an extensive internal review of all its services to see how they can be further improved and made as cost-effective as possible. In addition, a 'Transformation to Sustainability' project is underway that will assist in driving service improvements we have identified to continue the pursuit of further improvements to services in terms of cost-effectiveness and productivity.

Unfortunately this commitment to find further efficiencies and savings alone will not bridge the entire funding 'gap' to enable Council to become financially sustainable but is considered an important element of the total funding solution to achieve this financial position whilst minimising reductions in levels of service and rate increases.

Council's commitment to continue to find cost savings through improved efficiencies and additional funding sources to offset future rate increases is evident by the following amendment to the resolution made on 13 February 2014 to make formal application to IPART for a SRV from 2014/2015 for a three year period under Section 508(A).

"That management bring a report back to Council prior to the end of year 2 of the Special Rate Variation period summarising the overall results from the Special Rate Variation, transformation to sustainability project and other initiatives thus enabling Council to determine whether or not to continue with Year 3 of the Special Rate Variation."

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.

COUNCIL'S RESPONSE

Rating Structures from 2014/2015 to 2016/2017

The first three tables reflect Council's proposed Rating Structure (for Ordinary and Special Rates) for the next 3 years 'Without' the proposed SRV. The annual rate pegging increase has been uniformly applied across all rating categories.

A rate pegging increase of 3% has been assumed for years 2 and 3 (i.e. 2015/2016 and 2016/2017).

Rate Peg 2.3%

2014/2015 Rate Structure - WITHOUT Proposed SRV (Year 1)

Rating Category / Sub-Category	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Residential	28,520.80	0.0034871	312.00			5,239,180,518		27,168,036
Farmland	716.00	0.0034871	312.00			295,051,800		1,252,267
Business	1,427.12	0.0081185		526.50	252	587,328,700	8,389,634	4,832,795
Business (Business City Centre)	321.08	0.0111965		511.50	4	212,863,298	56,240	2,384,740
Totals	30,985				256	6,334,424,316	8,445,874	35,637,838

Special Rate	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Environmental Levy	30,985	0.0001038	20.15			6,334,424,316		1,281,861

Rate Peg 3%

2015/2016 Rate Structure - WITHOUT Proposed SRV (Year 2)

Rating Category / Sub-Category	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Residential	28,520.80	0.0035907	321.50			5,239,180,518		27,981,763
Farmland	716.00	0.0035907	321.50			295,051,800		1,289,636
Business	1,427.12	0.0083630		542.00	252	587,328,700	8,389,634	4,978,251
Business (Business City Centre)	321.08	0.0115340		526.00	4	212,863,298	56,240	2,456,621
Totals	30,985				256	6,334,424,316	8,445,874	36,706,271

Special Rate	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Environmental Levy	30,985	0.0001070	20.75			6,334,424,316		1,320,722

Rate Peg 3%

2016/2017 Rate Structure - WITHOUT Proposed SRV (Year 3)

Rating Category / Sub-Category	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Residential	28,520.80	0.0036991	331.00			5,239,180,518		28,820,637
Farmland	716.00	0.0036991	331.00			295,051,800		1,328,422
Business	1,427.12	0.0086143		558.00	251	587,328,700	8,324,834	5,127,771
Business (Business City Centre)	321.08	0.0118805		542.00	4	212,863,298	56,240	2,530,422
Totals	30,985				255	6,334,424,316	8,381,074	37,807,253

Special Rate	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Environmental Levy	30,985	0.0001102	21.38			6,334,424,316		1,360,513

The next three tables reflect Council's proposed Rating Structure (for Ordinary and Special Rates) for the next 3 years 'WITH' the proposed SRV. The proposed SRV percentage increases in the ordinary rate will be uniformly applied across all rating categories. As the SRV will generate additional funds to be allocated to community wide infrastructure maintenance and renewal it seems prudent to have this rate increase distributed evenly against all rating categories.

A rate pegging increase of 3% has been assumed for years 2 and 3 (i.e. 2015/2016 and 2016/2017) and is included in the proposed SVR percentage increases.

The Environmental Levy (Special Rate) has the same structure over the next 3 years with or without the proposed SRV.

SVR 7.90%

2014/2015 Rate Structure - WITH Proposed SRV (Year 1)

Rating Category / Sub-Category	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Residential	28,520.80	0.0036801	330.00			5,239,180,518		28,692,572
Farmland	716.00	0.0036801	330.00			295,051,800		1,322,100
Business	1,427.12	0.0085745		555.50	251	587,328,700	8,324,834	5,104,099
Business (Business City Centre)	321.08	0.0118235		539.50	4	212,863,298	56,240	2,518,282
Totals	30,985				255	6,334,424,316	8,381,074	37,637,054

Special Rate	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Environmental Levy	30,985	0.0001038	20.15			6,334,424,316		1,281,861

SVR 8.14%

2015/2016 Rate Structure - WITH Proposed SRV (Year 2)

Rating Category / Sub-Category	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Residential	28,520.80	0.0039857	357.50			5,239,180,518		31,077,988
Farmland	716.00	0.0039857	357.50			295,051,800		1,431,958
Business	1,427.12	0.0092872		600.50	251	587,328,700	8,324,834	5,528,050
Business (Business City Centre)	321.08	0.0128055		583.00	4	212,863,298	56,240	2,727,433
Totals	30,985				255	6,334,424,316	8,381,074	40,765,429

Special Rate		Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Environmental Levy	30,985	0.0001070	20.75			6,334,424,316		1,320,722

SVR 7.75%

2016/2017 Rate Structure - WITH Proposed SRV (Year 3)

Rating Category / Sub-Category	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Residential	28,520.80	0.0043022	385.50			5,239,180,518		33,534,771
Farmland	716.00	0.0043022	385.50			295,051,800		1,545,390
Business	1,427.12	0.0100215		647.00	251	587,328,700	8,324,834	5,964,884
Business (Business City Centre)	321.08	0.0138185		628.00	4	212,863,298	56,240	2,943,186
Totals					255	6,334,424,316	8,381,074	43,988,231

Special Rate	Number of Properties	Ad Valorem Rate (\$)	Base Amount (\$)	Minimum Amount (\$)	Properties on Minimum	Land Value	Land Value on Minimum	Estimated Yield (\$)
Environmental Levy	30,985	0.0001102	21.38			6,334,424,316		1,360,513

5.1.1 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'S RESPONSE

As detailed in Section 5.1, the proposed rating structures for 3-years from 2014/2015 'Without' the SRV indicate some 252 Business properties and 4 City Centre Business properties will be levied a minimum rate.

The proposed rating structures 'With' the SRV for 3-years from 2014/2015 indicate approximately the same number of business properties being levied a minimum ordinary rate – therefore the proposed SRV will not have an impact on the proportion of properties paying a minimum rate.

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.)

COUNCIL'S RESPONSE

Delivery Program 2013/2017

The Delivery Program shows how Council's 'principal activities' respond to the Community Strategic Plan. All of Council's plans, projects, actions and funding allocations are directly linked to the Delivery Program.

One of the central features of Council's 2013/2017 Delivery Program is a long term budget strategy that relies on a proposed SRV in 2014/2015.

2014/2024 Resourcing Strategy

Council's recently adopted 2014/2024 Resourcing Strategy provides the outcomes of actions taken in pursuit of the funding options identified in the 2013/2023 Resourcing Strategy. A summary of these outcomes was provided in Section 2 of this application.

Community Engagement regarding Levels of Service – 'Budget Allocator'

At its meeting of 26 September 2013, Council noted its annual funding 'gap' and endorsed the principles of the Level of Service Community Engagement Process, adopting a 'Community Engagement Strategy for Levels of Service'.

What differentiated this process from a previous Community Satisfaction Survey conducted in 2012 is that the community was enabled to understand the cost (\$) of service delivery, and thus to provide feedback on not only service level priorities, but also their willingness to pay for service delivery.

In accordance with the Community Engagement Strategy, a 'Budget Allocator' tool was utilised to gather community feedback on all services funded by the general ordinary rate.

The tool included a number of 'Level of Service' options for each operational service:

1. Increase Level of Service
2. Maintain current Level of Service
3. Mid-range decrease Level of Service
4. Minimum Level of Service

Given the need to increase funding for repair and renewal of Council's \$2 billion worth of infrastructure to sustainable levels only two Level of Service options were offered for infrastructure:

1. Enhanced Level of Service
2. Sustainable Level of Service

To enable people to make informed choices, the tool included a description of what each Level of Service option would actually look like. A full listing of each Level of Service description is included in the Council Report adopted 28 November 2013.

The cost of service selections, including the impact on the average residential rate, was indicated by the 'Budget Allocator', enabling participants to balance their service priorities against what they were willing to pay for them.

Below is a sample 'screen shot' from the Budget Allocator survey showing the level of service description, the options and budgets for several services and the box (on the right hand side) that helped participants track the impact of their choices in terms of the overall budget and also the average residential rate.

The screenshot displays the 'Budget Allocator' tool interface. It is divided into three main sections for service selection: 'COMMUNITY, CULTURAL & SPORTING EVENTS', 'LIFEGUARDS', and 'ENVIRONMENTAL MANAGEMENT'. Each section asks the user to indicate the Level of Service (LoS) they want to allocate. For 'COMMUNITY, CULTURAL & SPORTING EVENTS', the selected option is 'Maintain Current LoS (\$480k)', with 'Your Spend' and 'Budget' both at \$480k. For 'LIFEGUARDS', the selected option is 'Maintain Current LoS (\$600k)', with 'Your Spend' at \$600k and 'Budget' at \$480k. A tooltip for the Lifeguards selection shows details: 'Maintain Current LoS', 'Beach Patrols at Park Beach 12 months, Sawtell 7 months, Woolgoolga 2.5 months, other beaches Christmas Holidays'. For 'ENVIRONMENTAL MANAGEMENT', the selected option is 'Maintain Current LoS (\$410k)', with 'Your Spend' at \$410k and 'Budget' at \$410k. On the right side, a summary box titled 'THE ALLOCATOR' shows a 'Budget' of \$27.25m and a 'Your Spend' of \$33.45m. A yellow warning box states 'You are over budget by \$6.2m' and provides a detailed explanation: 'You're over budget! You are over budget and based on your current selections, Council may still have to increase ordinary rates above the State Government Rate Peg by 18.8%. Typically a 1% increase in average household rates equates to 18 cents a week or \$9.32 annually. You are over budget and may like to review and select other budget options.'

The outcomes of this engagement process were also included in the report to Council of 28 November 2013 (please see Attachment 12). Feedback based on a statistically significant Community Reference Group indicated that the community valued the services Council currently delivers and is willing to pay more to maintain these rather than see levels of service reduced.

Outstanding Rates and Annual Charges Percentage

The percentage of 'Outstanding Rates and Annual Charges' is a 'reportable' item within Council's 2013-2017 Delivery Program (Deliverable M33.13 - page 50).

Delivery Program 'reportable' items are structured in Council's Performance Planning software system, with a requirement that responsible officers provide results/data every six months – which is then included in six-monthly progress reports to Council on the Delivery Program.

Council's self-imposed target percentage for outstanding rates and annual charges is currently set at 7%.

Council's 2012/2013 Financial Statements show the 'Rates, Annual Charges, Interest & Extra Charges Outstanding Percentage' as at 30 June 2013 to be 6.48%. This result is a slight improvement on the percentage reported at 30 June 2012 which was 6.52%.

These results show that Council is currently meeting its Delivery Program target in this area and that the level of outstanding rates debt has been stable over the past two years.

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.

Does 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'S RESPONSE

Financial Hardship Policy

Council has a 'Rates, Charges and Fees – Financial Hardship Policy' which was initially adopted in March 2010 and reviewed and again adopted in August 2013. This policy provides assistance for all ratepayers suffering from financial hardship.

As this policy has been proven sufficient to address financial hardship, no further measures are deemed to be required at this time.

Council's 'Rates, Charges and Fees – Financial Hardship Policy' can be accessed via Council's website under the following link:

www.coffsharbour.nsw.gov.au/Coffs-And-Council/Documents/Approved%20Policies/Rates%20Charges%20and%20Fees-Financial%20Hardship%20Policy.pdf

Voluntary Pensioner Concessions

Since 2002 Council has granted additional voluntary pensioner concessions (pursuant to Section 582 of the Local Government Act) to eligible pensioners in respect of the Environmental Levy and Domestic Waste Charges. These concessions are provided in addition to the mandatory pensioner concessions allowed under Section 575 of the Local Government Act.

The granting of these additional concessions is resolved by Council on an annual basis.

The level of additional concession in the case of the Environmental Levy is the amount that is the difference between 50% of the ad valorem rate and 50% of the base amount and the mandatory rebate to be applied under Section 575 of the Local Government Act.

The voluntary concession on the Environmental Levy provides, on average, a reduction in the amount payable by eligible pensioners of about \$19 per annum.

The level of additional concession in the case of the Domestic Waste Charge is the amount that is the difference between \$87.50 and the mandatory rebate to be applied under Section 575 of the Local Government Act.

The voluntary concession on the Domestic Waste Charge provides, on average, a reduction in the amount payable by eligible pensioners of about \$87.50 per annum.

It is anticipated that the granting of voluntary pensioner concessions will continue into the future.

Group 5 Comparatives – Average Ordinary Rates

Coffs Harbour City Council is classified by the Australian Classification of Local Government (ACLG) as urban, regional and large (URL), this classification places the Council in 'Group 5' by the Division of Local Government (DLG) in regards to data comparatives.

The following table shows the latest DLG comparative data from 2011/2012 on the average Residential, Farmland and Business Ordinary Rates for all Council's within the Group 5 classification.

Comparative Information for Group 5 NSW Local Government Councils 2011/2012 (Average Ordinary Rates)

Group 5 Council	Average Residential Ordinary Rate (\$)	Average Farmland Ordinary Rate (\$)	Average Business Ordinary Rate (\$)
Coffs Harbour	804.18	1,462.94	3,589.73
Lake Macquarie	907.41	1,603.77	3,209.70
Maitland	865.20	2,232.38	4,463.87
Newcastle	897.56	1,500.00	7,031.39
Port Macquarie-Hastings	907.27	1,583.46	3,000.48
Shoalhaven	779.01	1,673.87	1,872.74
Tweed	1,082.30	1,505.29	2,910.98
Wollongong	1,044.77	1,979.27	8,995.03
Group 5 Average	910.96	1,692.62	4,384.24

This table shows that Council's average Residential Ordinary Rate for 2011/2012 (\$804.18) is the second lowest within the group and well below the overall group average of \$910.96.

This table also shows that Council's average Farmland Ordinary Rate for 2011/2012 (\$1,462.94) is the lowest within the group while the Average Business Ordinary Rate (\$3,589.73) is \$794.51 below the group average.

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.

COUNCIL'S RESPONSE

Key Assumptions that inform the 2013/2017 Delivery Program

The 2013-2017 Delivery Program has been developed using key assumptions including:

- Community Expectations
- Levels of Service
- Addressing the Funding Challenge
- Funding Options

The following information provides a summary of these assumptions which are further detailed in Attachment 2.

Community Expectations

The Community engagement process undertaken for last year's review of the Community Strategic Plan and results from Council's 2012 community survey have provided guidance on what the community wants for its future and what its priorities are.

Council's 2013/2017 Delivery Program was based on responding to the expectations expressed during these engagement processes. The Delivery Program contains all the strategies from the Community Strategic Plan, but has a focus specifically on Council's role within these strategies.

Level of Service for Assets

Asset data places Council's annual 'infrastructure gap' (for the General Fund) around \$6.2M. If this infrastructure gap is not addressed, service levels will decline as community assets deteriorate. This annual funding gap has an impact on Council's ability to meet community expectations and maintaining desired levels of service captured within the Community Strategic Plan.

Addressing the Funding Challenge

Council's 2013/2017 Delivery Program has a focus on Council becoming 'financially sustainable' and maintaining current levels of service. This financial position requires additional funding of \$8M to eliminate the annual General Fund infrastructure gap (approximately \$6.2M) as well as projected ongoing General Fund budget deficits (approximately \$1.8M).

Funding Options – ‘Sustainable’ Level of Service

The required additional funding to achieve a ‘Sustainable’ level of service delivery will come from a number of funding options which are likely to include:

- Productivity improvements
- Changes to current levels of service delivery
- Resource sharing opportunities
- Commercialisation of council services
- New revenue opportunities
- Additional Rate income

Key Assumptions in LTFP Modelling (2014/2024 Resourcing Strategy)

‘Base-Line’ LTFP Model

Council’s Base-Line Financial Model (please see Attachment 25) produces financial projections (at both fund and consolidated levels) over the next ten years based on a ‘business as usual’ scenario.

Council’s Base-Line Model contains the following key assumptions:

- Annual increases in rate revenue of 3.5% (including 0.5% - 1% for property growth)
- Revenue from annual charges increasing by 4% - 6% per annum (including growth)
- Other Revenues increasing by 3%
- Recurrent grant funding capped at (0% - 3%) increase per annum
- Annual increases of 5% for salary expenditure
- Operational expenditure increases capped at 3% per annum
- Recurrent capital expenditure capped at (0% - 3%) increase per annum
- A set program of capital projects over 10 years
- Existing Loan repayments (per loan repayment schedules)

The Base-Line model is unsustainable. It includes no increase in asset renewals to cover inflation, insufficient expenditure on assets to maintain acceptable standards and a declining operation position.

A continuation of this position in future years will result in an unacceptable decline in the standard and usability of infrastructure, particularly roads and recreational facilities and a reduction in general service levels provided by Council.

‘Sustainable’ LTFP Model

Council’s Sustainable Model (please see Attachment 25) produces financial projections (at both fund and consolidated levels) over the next ten years based on a ‘Sustainable’ level of service for assets. This level of service requires additional funding to eliminate the annual General Fund infrastructure renewal gap as well as projected General Fund budget deficits.

Council's Sustainable Model which previously formed the basis of Council's 2013/2017 Delivery Program and will again be used to develop Council's 2014/2018 Delivery Program.

This Financial Model contains the following key assumptions in addition to those mentioned in the Base-Line Scenario:

- No General Fund budget deficits for the next 10 years
- The value of the General Fund infrastructure backlog will not continue to increase
- No significant increases in unfunded new capital works
- Potential change to service delivery upon further review of current service levels
- Further productivity improvements through the 'Transformation to Sustainability' project
- Increase in General Fund asset maintenance expenditure
- Increase in General Fund asset renewal expenditure
- Additional rate funding through a community wide permanent Special Rate Variation over a 3 year period

Long Term Financial Plans

Council's 2014/2024 Resourcing Strategy provides full details on the two Long Term Financial Plan scenarios mentioned above for Council's General Fund and a scenario for each of the Water Supply and Sewerage Funds. Each scenario incorporates a Budget Summary, Income Statement, Balance Sheet and Cash Flow Statement (by fund) for the current year (2013/14) and the next ten years. (Please see Attachment 25 for this detail).

Allocation of Additional Rate Funds

The proposed SRV will generate additional ordinary rate funds (above the pegging increase) in the third year of approximately \$6.2M to address Council's annual General Fund infrastructure maintenance and renewal gap. The following table shows the proposed approximate allocation of these additional funds for the first three years across particular asset categories and expenditure.

	2014/2015	2015/2016	2016/2017
	Year 1	Year 2	Year 3
Asset Expenditure			
Road Pavements and Surfacing	\$679,924	\$1,341,999	\$2,004,633
Road Maintenance	\$190,000	\$390,000	\$600,000
Other Transport Assets	\$190,000	\$390,000	\$600,000
Building Renewals	\$480,000	\$980,000	\$1,500,000
Building Maintenance	\$160,000	\$330,000	\$500,000
Recreation Services Renewals	\$260,000	\$520,000	\$800,000
Asset Management	\$60,000	\$130,000	\$200,000
Totals	\$2,019,924	\$4,081,999	\$6,204,633

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.

COUNCIL'S RESPONSE

Productivity Improvements and Cost Containment Strategies

Service Review Process

Council has been very pro-active in finding cost savings and sources of income other than Government funding or rates. This approach to finding cost savings has been a long-standing approach of Council.

Over the past 2 years Council has undertaken a full service review to enable Council to make decisions regarding the allocation of its limited resources.

The process involved clearly identifying each service from three perspectives. These were:

- The reason for the service,
- The resources required for the service, and
- The results the service is delivering.

The service review was focused around identifying the levels of service options - but most importantly - identifying opportunities for improvement in Council efficiency and effectiveness.

The service review process attempts to link the long term financial plan that provides for sustainable service provision, towards achieving the objectives of the *Coffs Harbour 2030 Community Strategic Plan*.

Across 41 services, a number of 'Opportunities for Improvement' (OPI) (approximately 120) were identified that have the potential to better satisfy customers or otherwise meet Council's objectives, will save money, increase revenues and create efficiencies.

Some of these OPIs also involved the implementation of structural changes within Council to improve efficiency and the effectiveness of service delivery.

The service review process has established a framework for an ongoing continuous improvement program across Council. This program includes the implementation of a 'Transformation to Sustainability' project.

Transformation to Sustainability Project

Council's long-term financial plans make it clear that the cost of continuing to deliver the services the community expects is greater than the amount Council generates in revenues.

Council has acknowledged the need to move to a position of financial sustainability and is undertaking a range of activities aimed at improving operational efficiency and effectiveness as well as increasing revenues from sources other than rates. The independent 'Transformation to Sustainability' (T2S) project will help bring many of the current initiatives together in a focused business plan and consider the investment required if Council is to realise the benefits identified.

The T2S project provides a framework to identify opportunities across all Council services to improve operations (productivity and efficiency, increase external revenues), to evaluate these opportunities (including presenting them for Council's consideration where required) and to ensure they are implemented effectively.

This project will not bridge the entire \$8M funding gap to see Council become financially sustainable but is considered an investment opportunity; an opportunity to help Council to achieve a financially sustainable position whilst avoiding the full impact of trying to fund this gap through reducing levels of service and rate increases.

Terms of reference for the project have been developed and an external consulting firm has been appointed with suitable experience in this type of project. This firm is currently conducting an organisational diagnostic to enable the development of a report that includes a detailed business case and proposed implementation plan. It is anticipated that this phase of project should be completed by April / May 2014.

Previous Productivity Improvement and Cost Saving Measures

Productivity improvements, expenditure reductions and other initiatives in the past two years (or more) include the following:

- Introduction of zero based budgeting for the 2009/2010 budget – resulted in substantial savings for the year plus cumulative efficiency gains in future periods.
- Introduction of VOIP phone system in 2008/2009 saving over \$150,000 in the first year with cumulative savings in following years.
- Changes to Council's external mailing system in 2009/2010 resulting in savings of approximately \$30,000 annually.
- Council initiatives to increase the number of four cylinder and diesel vehicles.
- Introduction of new revenue raising projects such as the Local Government IT Conference, profit from this conference is > \$100,000 annually.
- Development of business plans for existing and prospective private works operations to generate a profit to the General Fund. Projected annual profits of \$500,000 to \$1M are expected into the future. The 2011/2012 actual profit was \$966,000. While actual profit for 2012/2013 was \$531,000.

- A standard set of Financial Performance Indicators have been established drawing on the NSW Local Government Health Check, South Australian Local Government Financial Indicators and Business Indicators.
- Council is participating in the NSW Procurement Roadmap Program (Stage 2) in an effort to improve the procurement process and develop key actions for efficiency and productivity gains. Key achievements to date include the creation of a centre-led procurement model and the development of organisational-wide expenditure category codes to capture more meaningful expenditure data. This gives Council better category management and supplier rationalisation. Council is also currently in the process of shifting all expenditure below \$1,000 from a labour intensive purchase order system to credit cards wherever possible – again, to improve operations and gain efficiencies. Further productivity and efficiency gains are expected in the future as we continue on the procurement roadmap.
- No increase in annual program budgets for General Fund for 2011/2012, which has driven further efficiencies in processes estimated to result in savings of approximately \$300,000.
- Introduction of Efficiency Leaders software system – electronic scanning of creditor invoices to reduce manual data entry.
- Creation of Cultural Fund “Prosper Coffs Harbour” – set up for environmental and cultural donations and bequests (two previous projects have received large private donations of \$750,000 and \$1,000,000).
- From 2010/2011 to the 2011/2012 financial year there were no CPI increase allowances for capital expenditure generating substantial budget savings of \$115,000.
- Council has implemented energy-efficient and waste-reducing projects which have had significant financial benefits. These projects include the introduction of solar panels for the generation of electricity for its buildings and landfill gas extraction.
- Council has entered into an agreement with Australia Post to delivery rate and water notices in electronic form via the Australia Post Digital Mailbox. This new innovation developed by Australia Post, in simple terms, is a virtual post office box for the receipt and storage of invoices etc. delivered in electronic form. Projections show that this service (to be available from June / July 2014) will save Council approximately \$140,000 in the first 4 years in regards to current costs associated with notice printing and postage.

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.

COUNCIL'S RESPONSE

Council has no special rate variations expiring during the period of this proposed SRV.

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.

COUNCIL'S RESPONSE

Council's Reporting Framework

Council has a reporting framework in place to monitor progress on all of the organisation's projects and services. This framework includes budget review and project/activity reporting.

Budget Review

Council currently undertakes monthly budget reviews. Program managers are provided with monthly reports (via Council's 'Enterprise Budgeting' software system) on the status of their associated budgets. Council has a set of internal guidelines which address budget responsibility, revision and movement.

If this application is approved the additional rate funding and associated works program will be set-up as a separate budget program detailing revenue, expenditure and reserve movement. This budget program would also been incorporated into Council's IPR documents.

Project / Activity Reporting

Delivery Program 'reportable' items are structured in Council's "Performance Planning" software system, with a requirement that responsible officers provide progress reports every six months.

Rate variation funded works are identified separately in the Delivery Program (and consequently included in the six-monthly progress report on the Delivery Program, which is tabled to Council) and managed as reportable items within Performance Planning.

All rate variation funded activities are accounted for in the Annual Report and include the following information:

- Additional income generated by the variation;
- Activities funded by the variation;
- Any changes relating to the proposed activities; and
- The outcomes of the variation funded activities.

All levels of reporting can be accessed via Council's website (see 'Reports' under the following link):

<http://www.coffsharbour.nsw.gov.au/Coffs-And-Council/running-council/Pages/corporate-planning-reporting.aspx>

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.

COUNCIL'S RESPONSE

Council Resolution to Apply for a Special Rate Variation

Please refer to Attachment 26 for a copy of Council's resolution (dated 13 February 2014) to apply to IPART for a Special Rate Variation for 2014/2015.

9 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	<input checked="" type="checkbox"/>
Delivery Program	<input checked="" type="checkbox"/>
Long Term Financial Plan	<input checked="" type="checkbox"/>
Relevant extracts from the Asset Management Plan	<input checked="" type="checkbox"/>
TCorp report on financial sustainability	<input checked="" type="checkbox"/>
Contributions Plan documents (if applicable)	N/A
Media releases, public meeting notices, newspaper articles, fact sheets relating to the rate increase and special variation	<input checked="" type="checkbox"/>
Community feedback (including surveys and results if applicable)	<input checked="" type="checkbox"/>
Hardship Policy	<input checked="" type="checkbox"/>
Past Instruments of Approval (if applicable)	N/A
Resolution to apply for the special variation	<input checked="" type="checkbox"/>
Resolution to adopt the Delivery Program	<input checked="" type="checkbox"/>

10 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: **Coffs Harbour City Council**

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

[Please refer to Attachment 27 for a signed version of this certification.](#)

General Manager (name): **Steve McGrath**

Signature and Date:

Responsible Accounting Officer (name): **Dale Allen**

Signature and Date:

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.