



Special Variation Application Form Part B

Armidale Regional Council

Application Form

2023-2024

Local Government »



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The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from [IPART's website](#).

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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Council information

Council name	Armidale Regional Council
Date submitted to IPART	3 February 2023

About this application form

IPART has revised the Application Form to be completed by councils applying for a special variation (SV) to general income for 2023-24 under section 508(2) or 508A of the *Local Government Act 1993* (LG Act). The application form is in two parts:

- Special Variation Application Form Part A (separate Excel spreadsheet)
- Special Variation Application Form Part B (this MS Word document)

The SV Application Form Part B consists of:

- Description and Context Questions
- Criterion 1: Need for the variation
- Criterion 2: Community awareness and engagement
- Criterion 3: Impact on ratepayers
- Criterion 4: IP&R documents
- Criterion 5: Productivity improvements and cost containment strategies
- Criterion 6: Other relevant matters
- Council certification and contact information
- List of attachments

When completing this Application Form, councils should refer to the following:

- Apply for a SV or minimum rates (MR) increase page of IPART's [website](#)
 - Fact Sheet – Special Variations in 2023-24
 - Information paper – Special Variations in 2023-24
 - Information paper – Community awareness and engagement for special variations

The Office of Local Government (OLG) [SV Guidelines](#) issued in November 2020.

Preparing your application

How much information should a council provide?

While the criteria for all types of SVs are the same, the OLG Guidelines state that the extent of evidence required for assessment of the criteria can alter with the scale and permanence of the SV proposed.

The amount of information that a council provides will be a matter of judgement for the council, but it should be sufficient for us to make an evidence-based assessment of the application. Generally, the extent of the evidence should reflect the size and complexity of the variation sought.

Attaching supporting material

We encourage councils when filling in this Application Form to present data in tables or summaries and include full versions of documents as attachments. Responses in the text boxes should clearly cross-reference where the information is located in the supporting documents attached to the council's application. Extracts included in the responses in this application from Integrated Planning & Reporting framework (IP&R) documents and consultation material should be succinct and selected for relevance and significance.

Confidential content in supporting material

IPART will post all applications (excluding confidential content) on the IPART website. Examples of confidential content are those parts of a document which disclose the personal identity or other personal information pertaining to a member of the public, or a document such as a council working document that does not have formal status, or a document which includes commercial-in-confidence content.

Councils should ensure supporting documents are redacted to remove confidential content where possible, or clearly marked as **CONFIDENTIAL**. To protect confidential details in submissions from ratepayers, either redact or submit as a confidential attachment (see List of attachments).

Submitting the application online

Applications must be submitted through IPART's Council Portal by close of business on Friday, 3 February 2023.

- A file size limit of 10MB applies to the Application Form Part B.
- For supporting documents (Attachments) a file size limit of 400MB applies to public documents, and another 200MB to confidential documents.

Contact Arsh Suri on (02) 9113 7730 for assistance with using the Council Portal.

Publishing the council's application

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

Description and Context

These questions seek information not tied to a specific criterion in the OLG guidelines. Councils should provide a response where the Question is relevant to its application.

Question 1: What is the type and size of the special variation the council is applying for?

In the checkbox and Table 1, please indicate the type of the proposed SV - section 508(2) or 508A the council is requesting and:

- specify the percentage increases in each of the years in which the SV is to apply,
- the cumulative increase for a section 508A SV, and
- whether the SV is to be permanent or temporary.

A year is within the SV period if it is a year in which the council is proposing an increase of income that is not the rate peg. For example, if a proposal was for a permanent SV of 10% in each year of the next 2-years then 2023-24 and 2024-25 would be within the SV period. If the proposal was for a temporary SV of 8% for 2023-24 to be retained in the rate base for 5 years, the SV period would be 2023-24 only.

Provide select the proposed SV type using the checkbox and complete Table 1.

Special variation type	<input type="checkbox"/> Section 508(2)	<input checked="" type="checkbox"/> Section 508A
Permanent or Temporary	<input checked="" type="checkbox"/> Permanent	<input type="checkbox"/> Temporary

Table 1 The council's proposed special variation

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Is this year in the SV period?	yes	yes	yes	no	no	no	no
Percentage increase (including the rate peg)	16.67%	16.67%	16.66%	X.X%	X.X%	X.X%	X.X%
Cumulative percentage increase over the SV period for s 508A (including the rate peg)	16.67%	36.12%	58.8%				

Note: Please leave the percentage increase value blank for years that are outside of the SV period.

Note 2: The cumulative percentage increase is the total increase in rates over the SV period. For example, a permanent multi-year SV of 10% in 2023-24 and 15% in 2024-25 would be a cumulative increase of 26.5% over the SV period.

Question 2: What is the key purpose of the requested special variation?

In the **text box** indicate at the highest level (that is, the shortest possible summary) the key purpose(s) of the proposed SV. The purposes could include one, or a combination of:

- improving financial sustainability
- maintaining existing services and service levels generally
- providing new or enhanced services or service levels for specific council operations

- implementing new projects or activities, e.g. environmental works
- reducing infrastructure backlogs for asset maintenance and/or renewals
- investing in new assets
- contributing to projects of regional significance
- meeting special cost pressures faced by the council
- meeting the shortfall where contributions for local infrastructure are capped.

This section should also include an outline of the key steps undertaken in reaching a decision to make an application.

The key purpose of the requested special variation is to:

- maintain existing services and service levels; and
- undertake capital renewals in order to meet the minimum renewals ratio recommended by OLG, thereby reducing the existing infrastructure backlog.

The proposed SRV is part of the solution to:

- Improve financial sustainability by eliminating the General Fund operating deficit;
- Deliver the services as outlined in the draft Integrated Planning and Reporting documents;
- Provide sufficient funding to meet asset renewal funding requirements and appropriately manage the infrastructure backlog; and
- Meet compliance obligations under the Local Government Act and other forms of legislation.

Question 3: Is the council proposing to increase minimum rates in conjunction with the special variation?

Complete this question if the council proposes to increase minimum ordinary or special rates in conjunction with the SV for 2023-24.

Councils may have to submit a separate application for an increase to MR in addition to applying for the SV.

A separate MR increase application is needed in the following circumstances:

- The council is currently charging a minimum ordinary rate *at or below the statutory limit*, and intends, as part of implementing the SV, to apply a lower, higher or the same percentage increase as the requested SV percentage, which would result in a minimum rate in any rating category or sub-category *exceeding the statutory limit* for the first time.
- The council is already charging a minimum ordinary rate *above the statutory limit*, and the council is seeking to increase a MR by a percentage *higher than* the proposed SV percentage increase for any year.
- The council proposes to charge a special rate (other than a water supply or sewerage special rate) above \$2.

- The council already has approval from IPART to charge a special rate (other than a water supply or sewerage special rate) above \$2 and proposes to increase the amount of that rate.

In these situations, councils should complete Minimum Rate Application Form Part B 2023-24 (Word document) available on our website [here](#).

Councils **do not need** to submit a separate MR increase application if, in conjunction with the special variation, the proposed increase to minimum rates would result in minimum rates in all rating categories and/or sub-categories still being *at or below the statutory limits*.

To respond to this question, councils need only to provide the summary information required in the **question box**.

IPART will rely on data in the SV Application Form Part A and the MR Increase Application Form Part A for detailed information about how the proposed SV would increase minimum amounts of rates.

If the increase applies to an ordinary rate, complete this section

Does the council have an ordinary rate(s) subject to a minimum amount? No

Does the council propose to increase the minimum amount of its ordinary rate(s) above the statutory limit for the first time? No

Which rates will the increases apply to? Choose an item.

If the increase will apply to only some subcategories, specify Click or tap here to enter text.

Does the council propose to increase the minimum amount of its ordinary rate(s)? if so, by what percentage? Choose an item.
X%

What will the minimum amount of the ordinary rate(s) be after the proposed increase? \$Click to enter amount

Has the council submitted an application for a minimum rate increase? No

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

Does the council propose to increase the minimum amount of a special rate above the statutory limit? Choose an item.

What will the minimum amount of the ordinary rate(s) be after the proposed increase? \$Click to enter amount

Has the council submitted an application for a minimum rate increase? Choose an item.

The council must ensure that it has submitted MR Increase Application Form Parts A and Part B, if required.

Question 4: Does the council have an expiring special variation?

If the council has an expiring SV, IPART requires additional information to ensure the Instrument approving a new SV accurately calculates the amount the council has to remove from its general income before applying any adjustment to the council's general income which may be approved.

OLG's SV Guidelines specify that councils must contact OLG to confirm the calculation of the amount to be deducted from the council's general income for the expiring SV.

Complete this question if the council has a temporary SV which is due to expire:

- on 30 June 2023, or
- at the end of a later year in the period the requested SV would apply.

The council must calculate the amount to be removed from general income when the SV expires in accordance with the method explained in Attachment 1 to the SV Guidelines. It should also seek confirmation of this calculation from OLG and attach OLG's advice to the Application Form.

Provide the information as requested in the question boxes.

Does the council have an SV which is due to expire on 30 June 2023?	No
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Does the council have an SV which is due to expire at some time during the period for which the new SV is being requested?	No
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If Yes to either question:	Click or tap here to enter text.
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a. When does the SV expire?

b. What is the percentage to be removed from the council's general income?	Click or tap here to enter text.
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c. What is the dollar amount to be removed from the council's general income?	Click or tap here to enter text.
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Has OLG confirmed the calculation of the amount to be removed?	Choose an item.
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Attachments required:

- Instrument(s) approving any SV which expires at the end of the current financial year or during the period covered by the proposed SV.
- OLG advice confirming calculation of the dollar amount to be removed from general income as a result of the expiring SV.

Question 5: Does the council have an existing (ongoing) section 508A special variation which applies in 2023-24?

Complete this question if the council has an existing section 508A multi-year SV instrument which approves an increase to general income above the rate peg for 2023-24 and future years within the period covered by the council's SV application.

If the council has an ongoing section 508A SV and is seeking additional changes to general income during the term of that existing SV, IPART will need to vary the original instrument if the additional SV is approved, rather than issuing an additional SV instrument to apply for 2023-24 (or later years).

The council should understand that by completing this application form and seeking a further change to the council's revenue path, it is, in effect, applying to IPART to vary the original instrument.

IPART will assess the application using the same criteria (see Criteria 1 to 6 in this SV Application Guide and the SV Guidelines), as for any application for a new SV.

While IPART's assessment will typically focus on the additional percentage increase sought, we may also consider whether it is appropriate to maintain the existing component of the section 508A SV, especially in light of any circumstances which are materially different from those in place when the original increase was approved.

OLG's SV Guidelines (Section 6) set out the list of factors which IPART may take into account when assessing an SV application, one of which is compliance with conditions in instruments approving previous SVs. When assessing applications for SVs in 2023-24, IPART will also take into consideration the council's compliance with conditions in instruments approving SVs in the previous five years.

The council's application should be clear about whether the information provided is in relation to the incremental increase being sought or the total cumulative increase that would be reflected in a varied instrument if the additional increase is approved.

Supporting documents could include extracts from annual reports or any other publications in which compliance with the terms of the SV has been reported to ratepayers.

Does the council have a section 508A multi-year SV instrument that applies in 2023-24?	No
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If yes to the above question, in the text box:

- Specify the percentage increase(s) and duration of the SV.
- Outline the council's actions in complying with conditions in the instrument approving the original SV.
- Describe any significant changes relevant to the conditions in the instrument since it was issued.

[Click here to enter text.](#)

Attachments required:

- A copy of the SV instrument.
- A declaration by the General Manager as to the council's compliance with the conditions specified in the SV instrument.
- Supporting documents providing evidence of the council's actions to comply with the conditions in the instrument.

Question 6: Has IPART approved a special variation for the council in the past five years?

When assessing applications for SVs in 2023-24 IPART will take into consideration the council's compliance with conditions in SV instruments approved in the previous five years. OLG's SV Guidelines (Section 6) sets out additional factors which IPART may take into account when assessing an SV application, one of which is compliance with conditions in instruments approving previous SVs.

Complete this question only if IPART has approved an SV for the council in the past five years.

You **do not need** to complete the text box for this question if the relevant information has been provided in the council's response to Question 5.

Supporting documents could include extracts from annual reports or any other publications in which compliance with the terms of the SV has been reported to ratepayers.

Does the council have a section 508(2) or 508A SV which IPART has approved in the past five years?	Yes
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If yes to the above question, in the text box, for each SV approved in the past five years, briefly:

- Specify the type of SV and the increase to general income approved.
- Outline the council's actions in complying with conditions in the SV instrument(s).
- Describe any *significant* changes relevant to the conditions in the SV instrument(s) since it was issued.

IPART determined under section 508(2) of the Act that the percentage by which Armidale Regional Council may increase its general income for the year 2021-22 was 10.5% (including the rate peg of 2%).

In accordance with Item 2(b) of the Instrument under Section 508(2), Council reported in its Annual Report for the Year 2021-22 the following:

Program of Expenditure funded by SRV Funds	Allocation of SRV Income and Proposed Expenditure \$000	Actual Expenditure \$000	(Underspend)/ Overspend \$000	Comments
Renewals - Urban	323	1,285	962	Note 1
Renewals - Rural	458	1,319	861	Note 1
Renewals – Gravel Resheeting	393	1,847	1,454	Note 1
Renewals – Kerb & Gutter	65	28	(37)	Note 2
Renewals – Footpaths	47	4	(43)	Note 2
Renewals - Buildings	227	1,153	926	Note 1
Total	1,513	5,636	4,123	

Note 1: Council expended the allocated SRV Funds and made an additional investment of General Fund resources/other grant related funding into the relevant Renewals Program. The overall outcome achieved as a result of the additional income was some progress towards reducing the backlog of required asset maintenance and renewal works.

Note 2: Inclement weather and availability of service providers resulted in delays in the provision of some services for Kerb & Gutter and Footpath programs. It is proposed for the Program underspend amounts to be expended in FY2023.

Projected & Actual Results FY2022 (General Fund)	Projected Results \$m	Actual Results \$m	Variance \$m	Comments
Total revenue	62	86	24	Note 3
Total expenses	(56)	(67)	(11)	Note 4
Operating result from continuing operations	6	19	13	Note 5
Less Capital grants and contributions	(8)	(18)	(10)	Note 6
Net operating result before capital grants and contributions	(2)	1	3	Note 5

Note 3: Council received an increased level of income from Rates and Annual Charges, User charges and fees and Operating Grants during FY2022 than was forecast in the Long Term Financial Plan for the corresponding year.

Note 4: Council's incurred an increased level of expenditure on employee costs, materials and services and depreciation during FY2022 than was forecast in the Long Term Financial Plan for the corresponding year.

Note 5: The overall net increase in operating result from continuing operations and net operating result before capital grants and contributions is a result of the gross increase in income being larger than the gross increase in expenses.

Note 6: Council received an increased level of capital grants and contributions during FY2022 than was forecast in the Long Term Financial Plan for the corresponding year.

Attachments required:

- A copy of the relevant instrument(s) approving SVs issued by IPART in the past five years. (Doc 31. ARC Armidale permanent 508(2) Instrument 2021)
- A declaration by the General Manager as to the council's compliance with the conditions specified in the SV instrument(s). (Doc 32. ARC Declaration by GM as to Councils compliance with SRV conditions)
- Supporting documents providing evidence of the council's actions to comply with the conditions in the instrument(s). As noted in the ARC Annual Report for 2022 (Doc 36 ARC Annual Report 2022 page 2-3 Extract).

Question 7: Does a project to be funded by the special variation require a capital expenditure review?

Complete **the question box** if the council intends to use any of the additional general income the council would receive if IPART approves the SV to undertake major capital project(s) which require a capital expenditure review.

OLG's [Capital Expenditure Guidelines](#) require a capital expenditure review for projects that are not exempt and cost in excess of 10% of council's annual ordinary rates revenue or \$1 million (GST exclusive), whichever is greater.

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

Is a capital expenditure review required for a project to be funded by the proposed SV r in accordance with OLG's Capital Expenditure Guidelines?	No
If Yes, has a review been done and submitted to OLG?	Choose an item.
If yes, has the review been included as an attachment to this application?	Choose an item.

Question 8: Does the council have deferred general income increases available to it?

Complete **the question box** if council has decided not to apply the full percentage increases to general income available to it in one or more previous years under sections 506, 508(2) or 508A of the LG Act.

Section 511 of the LG Act was amended in 2020 to allow councils to catch-up any deferred general income increases over a period of 10 years.

In assessing this criterion, IPART will take into account whether a council has a large amount of revenue yet to be caught up over the next several years, and it should explain in its application how that impacts on its need for the SV.

Does the council have deferred general income increases available to it from one or more previous years under section 511 of the LG Act?	No
If Yes, has the collection of this additional income been included in the Council's Long Term Financial Plan (LTFP)?	Choose an item.

In the text box explain:

- a. The quantum, rationale and timing of any deferred increases in general income.

[Click here to enter text.](#)

- b. When council plans to catch up on the deferred general income through the catch up provisions and whether this been included in the LTFP.

[Click here to enter text.](#)

- c. How does this deferred income impact on the council's need for the SV and its cumulative impact on ratepayers' capacity to pay?

[Click here to enter text.](#)

Criterion 1 – Need for the Special Variation

Criterion 1 in the SV Guidelines is:

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

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

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

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

In assessing this criteria, IPART will also take into account whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the special variation.

The response to this criterion should summarise the council's case for the proposed SV. It is necessary to show how the council has identified and considered its community's needs, as well as alternative funding options (to a rates rise). You should include extracts from, or references to, the IP&R document(s) that demonstrate how the council meets this criterion.

Information and financial analysis contained in the council's IP&R documents and its application should demonstrate the financial need for the proposed SV. IPART will undertake its own analysis of the council's financial performance under scenarios with and without the SV, as explained in Box 1. The council's response to criterion 1 should use the terminology included in Box 1

Box 1 IPART analysis of financial need using information in the council's application for a special variation

IPART uses information provided by the Council in its application to assess the impact of the proposed SV on the Council's financial performance and financial position in relation to its operating result and infrastructure spending.

Based on the Council's application and LTFP (where appropriate), we calculate financial forecasts under three scenarios:

1. **The Proposed SV Scenario** – which includes the Council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** – which shows the impact on the Council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
3. **The Baseline with SV expenditure Scenario** – which includes the Council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application but could only increase general income by the rate peg percentage.

Case for special variation – How did the council establish the need for the special variation?

In the table below, please provide a short summary of what the council published in its IP&R documents that show that the council meets each component of criterion 1. Please also provide a reference to where in the IP&R documents this evidence can be found. The answers to these questions should explain:

- How the council identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision.
- How the decision to seek higher revenues above the rate peg was made.
- Which other options were examined, such as changing expenditure priorities or using alternative modes of service delivery.
- Why the proposed SV is the most appropriate option: for example, typically other options would include introducing new or higher user charges and/or an increase in loan borrowings, public private partnerships or joint ventures.
- How the proposed SV affects the LTFP forecasts for the General Fund, and how this relates to the need the council identified. Our assessment will also consider the assumptions which underpin the council's LTFP forecasts.
- If the need for the expenditure is not required to meet a financial need, the council should provide evidence of the community's desires for the services or assets to be funded by the proposed SV and its willingness to pay for them.

If the council has **an ongoing SV**, while the response should focus on the additional percentage increase to general income being sought, it should also specify:

- How the council has implemented the program of expenditure funded by the existing SV income.
- Whether any circumstances relating to the financial need for the additional revenue changed since it was approved, for example the council has received grant funding or income from other sources for the project.
- How changed circumstances have given rise to the need for an additional increase to general income.
- How closely revenue and expenditure in past years matched the projections made in the council's LTFP when applying for the original, and if relevant, the reasons for any significant differences.

Where the council **proposes to increase the minimum amount of rates** in conjunction with the SV, the responses to the questions should include information about the MR increases where relevant. However, the council should explain its rationale for increasing minimum rates above the statutory limit when completing the MR Increase Application Form Part B in relation to criterion 1: Rationale.

Table 2 Criterion 1 components

Criteria	Evidence of meeting this criterion from the council's IP&R documents	Reference to IP&R documents* All page numbers refer to the electronic page reference
The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the SV) is clearly articulated and identified in the council's IP&R documents	<p>Armidale Regional Council was formed in 2016 through the amalgamation of Armidale Dumaresq (ADC) and Guyra Shire Councils. Both Councils (A) were deemed to be 'not fit' under the NSW Government's Fit for the Future criteria and both former Councils had identified a requirement for large Special Rate Variations in order to be financially sustainable.</p> <p>In 2020-2021, Armidale Regional Council applied to make a temporary 10% SRV (that applied to the former ADC) permanent through a successful application to IPART. A higher proposal by Council staff was not supported by the former Councillors, and making permanent the existing 10% SRV did not provide any increase in rates, despite increasing asset renewal requirements and inadequate cash reserves. An unsustainable financial position remained, for the most part, unaddressed.</p> <p>In 2021, during the review and preparation of the Integrated Planning and Reporting documents, Armidale Regional Council sought feedback from the community regarding their aspirations for the future. The feedback from this consultation strongly indicated that the community wanted to see more economic growth, a focus on environmental sustainability, quality leadership and improvements to transport infrastructure (B1). In fact, the November 2021 community engagement and independent community satisfaction survey (B) indicated that the community rated Transport & Infrastructure as the number 1 item that they wanted improved within our region and that sealed roads was a key priority for council in spending its money wisely.</p>	<p>(A) Doc 1. ARC Delivery Program 2022-2026 with Addendum (DPwA), page 47</p> <p>(B) Doc 2. ARC Delivery Program 2022-2026 – Adopted June 2022 (DP) DPwA, page 12</p> <p>(B) Doc 3. ARC Shape your region Community Plan 2022-2032 Engagement Summary Page 2</p>

When the LTFP for 2022-23 to 2031-32 was developed, it identified two critical issues.

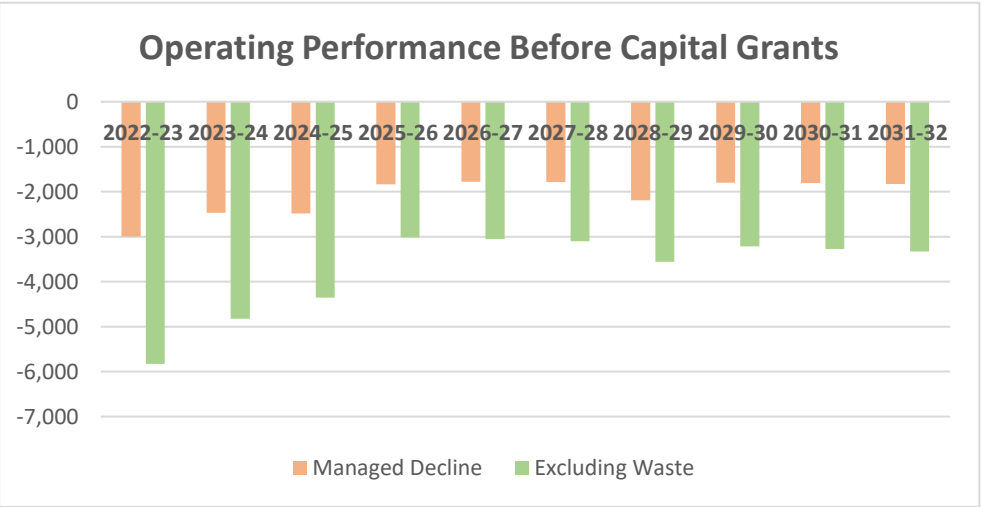
The first was that there was a shortfall before capital grants of \$3 million in the first year. After reducing services by \$2 million per annum and implementing total efficiency gains of \$1 million staged over three years (and ongoing), the average ongoing loss in the General Fund for the remaining nine years was still \$2 million per annum. (C)

The LTFP also identified that when the surplus from waste (domestic and other waste) was excluded, the deficit before capital grants in the General Fund was closer to \$5.8 million in the first year alone. Although the (D) waste divisions generate positive results, these surpluses are restricted (either externally or internally) for the purpose of managing capital expenditure associated with the expansion and/or remediation of council’s landfill sites.

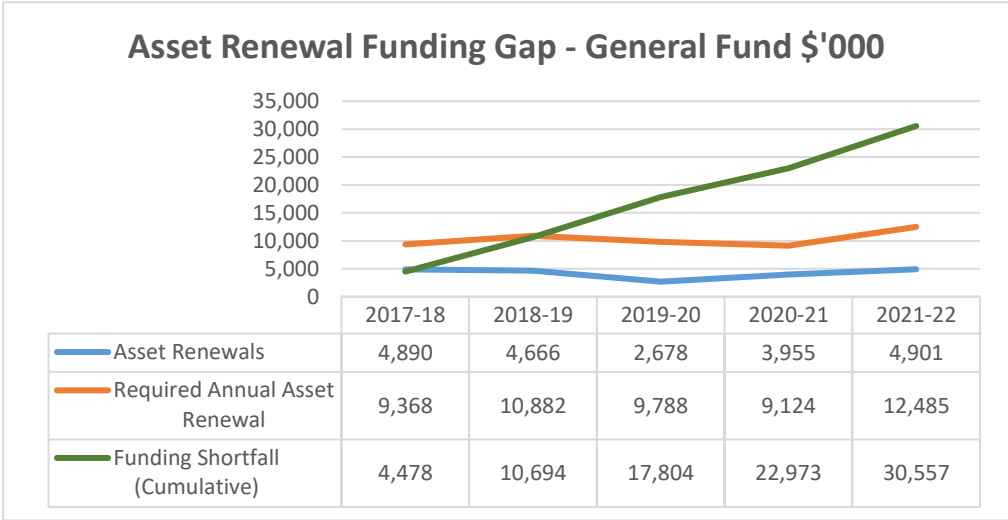
(B) Doc 4.ARC Community Satisfaction Survey Jan 2022 Page 6
(B1) Doc 37 Community Strategic Plan

(C)Doc 5. Adopted LTFP 2023 to 2032 – page 59 (61 electronic) and 70 (75 electronic) of Resourcing Strategy Adopted June 2022

(D)Doc 9 page 21 Proposal for a Special Rate Variation 2023-2026 Information Pack for Community Feedback – page 2)



The consequence of this shortfall aligned with the second issue which was that there was a shortfall between required renewals and cash available to undertake this critical work. As can be seen from the graph below, this has been an ongoing problem for ARC over the past five years.



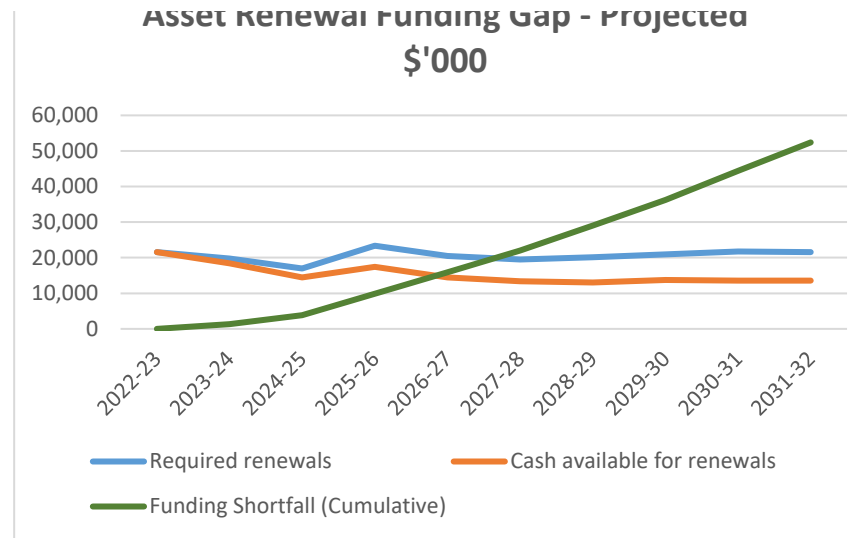
The asset renewal funding gap over the past five years has contributed to the increase in assets moving into conditions four and five. In early 2021 council reported that only six percent of General Fund infrastructure assets were in one of these two conditions. This has grown to over 17% and will continue to increase the longer council fails to address the shortfall in asset renewal funding. This is supported by the following three tables:

Asset Class	Replacement Cost \$'000	Depreciation FY 21/22 \$'000
Buildings	137,387	2,179
Other structures	11,221	130
Roads (excluding bulk earthworks)	343,002	6,571
Stormwater drainage	186,109	2,076
Other infrastructure	56,417	1,529
Total per application Part A WK7	734,136	12,485

Condition	1	2	3	4	5	Total
Replacement cost \$'000	355,395	97,367	153,688	115,069	12,618	734,136
% in condition	48.4%	13.3%	20.9%	15.7%	1.7%	100.00%

Definition of each level of condition		
Condition Rating	Condition	IP&R description
1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

The shortfall between what asset renewals were needed and what cash was available to fund the renewals is highlighted in the graph below. The consequence of this shortfall is that council's infrastructure asset backlog grows. This is exacerbated by the first issue which leads to reduced maintenance which ultimately leads to further deterioration in asset condition and therefore the requirement to renew assets earlier than planned.



Council therefore developed a 50% SRV scenario to include in the LTFP (E) (General Fund) which was set to deliver, from the third year of the introduction of the SRV (2025-26):

- Operating performance ratio of between 6.0% and 7.6%;
- Buildings & infrastructure renewals ratio of between 111% and 124%;
- Infrastructure backlog ratio declining from 1.9% to 1.5%;

(E)Doc 5. Adopted LTFP 2023 to 2032 – pages 67, 69 and 70 of Resourcing Strategy Adopted June 2022

The purpose of the proposed SRV is to:(F)

- i. Improve financial sustainability by eliminating the General Fund operating deficit;
- ii. Deliver the services as outlined in the Integrated Planning and Reporting documents;
- iii. Provide sufficient funding to meet asset renewal funding requirements and appropriately manage the infrastructure backlog; and
- iv. Meet compliance obligations under the Local Government Act and other forms of legislation

(F)Doc 1. DPwA, page 7

In establishing need for the SV, the relevant IP&R documents should canvass alternatives to the rate rise.

Before considering an SRV, Council explored a number of options in an attempt to avoid or minimise any rate rise. Options investigated included: (G)

(G) Doc 1.DPwA, page 56

Funding the required increase from general revenue

Council has already realised \$2 million in ongoing savings in its long term financial plan and must continue to achieve efficiency targets to maintain this position. Attempting to fund further expenditure would not be possible without substantial cuts or even elimination of services in other areas, and this was not supported by the community in recent community engagement

Implementing new and increasing existing user charges & fees

It is not considered feasible that the required additional funds can be raised solely from Implementing new and increasing existing user charges & fees. However Council will continue to review fees and charges and identify opportunities to recover costs. In some instances it is not considered feasible and would be impracticable to implement new fees. For example, Council does not have authority to implement road tolls, nor would it be practical to implement entry fees for public parks.

Take out new borrowings

Council already has \$23.7 million in borrowings, with \$14.063 million in General Fund. Further borrowings are not considered feasible because the need is for recurrent expenditure on an annual and ongoing basis. Large, one-off borrowings would further exacerbate asset backlog ratios and Council's financial sustainability challenge. Loans would need to be repaid, further impacting cash flow and the delivery of annual programs.

Use cash reserves

Council's unrestricted current ratio of 2.27 in the General Fund is only just above the recommended benchmark of 1.5. This ratio includes internal restrictions. As a result, there are no available funds in cash reserves to redirect to annual operating expenditure without breaking the Performance Improvement Order/Financial Improvement Plan (Doc 30) (G-3) requirements to build unrestricted cash above \$5 million.

(G-3) Doc 30.
Performance Improvement
Order page 17

Seek Grant funds

Council could seek to rely on grant funds. However, there are no grant programs that deliver ongoing funding to the level required to address these issues.

	<p>If an SRV is not approved there will need to be significant service level adjustments. Service level adjustments will be reviewed under asset maintenance programs and through the planned program of service reviews. Council recognises, however, that these are already under significant stress and this would require further consultation with the community before any adjustments are made.</p>
<p>In demonstrating this need councils must indicate the financial impact in their LTFP</p>	<p>Developing the 2022/23 IP&R Operational Plan, LTFP and Budget</p> <p>Council, as part of the 2022/23 IP&R Operational Plan, LTFP and Budget cycle process identified that Council's General Fund Unmanaged Decline Scenario (Baseline Scenario before reducing expenditure & services by \$2 million p.a. indexed) generated ongoing operating deficits before capital grants for all 10 years, with an estimated accumulated operating deficit of nearly \$41 million. This outcome identified the need for an alternative path.</p> <p>Council subsequently developed a Baseline Scenario (Managed Decline Scenario) which assumed reduced services/expenditure of \$2 million (H) indexed each year (\$19.9 million in savings over nine years, i.e. from the second year of the LTFP). This still resulted in ongoing operating deficits before capital grants for all 10 years, with an estimated accumulated operating deficit of nearly \$21 million.</p> <p>The following three scenarios were developed for Council consideration. The first option was <u>not</u> included in the adopted LTFP scenarios because it was considered unsustainable and irresponsible. The final two versions were adopted and used during the community engagement: (I)</p> <ul style="list-style-type: none"> • The Unmanaged Decline Scenario • The Baseline Scenario (also known as Managed Decline) • The Proposed SV Scenario (also known as SRV 50% Over 3 Years) <p>The Baseline Scenario which already includes \$2 million or more in expenditure cuts, resulted in the following key ratio results:</p> <ul style="list-style-type: none"> ○ Operating performance ratio of between -2.7% and -4.8%; ○ Buildings & infrastructure renewals ratio of between 67% and (J) 105%; ○ Infrastructure backlog ratio increasing from 2.0% to 3.0%; <p>The proposed SV Scenario resulted in the following improved key ratios:</p> <ul style="list-style-type: none"> ○ Operating performance ratio of between 6.0% and 7.6%; (J-2) ○ Buildings & infrastructure renewals ratio of between 111% and 124%;

(H)Doc 5.Adopted LTFP 2023 to 2032 – page 71 of Resourcing Strategy Adopted June 2022

(I) Doc 5.Adopted LTFP 2023 to 2032 – pages 67 to 92 of Resourcing Strategy Adopted June 2022

J)Doc 5.Adopted LTFP 2023 to 2032 – pages 68 to 69 of Resourcing Strategy Adopted June 2022

- Infrastructure backlog ratio declining from 1.9% to 1.5%;

(J -2)Doc 5.Adopted LTFP 2023 to 2032 – pages 67 to 70 of Resourcing Strategy Adopted June 2022

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

As part of the process of developing the Advancing our Region Community Plan on behalf of the community, Council conducted extensive community engagement in November 2021. Below is a summary of what the (K) community told us that they want for their region, why they love our region and what they want improved in our region.

This feedback was utilised to develop the Advancing our Region Community Plan (K1), and consequently inform the initiatives that Council commits to undertake through this Delivery Program.

Our community's 2032 vision for our region (rankings)

1. Economically robust
2. Environmentally sustainable
3. Led through good governance
4. Strong tourism sector
5. A cohesive community

What we love and value about our region (top 6 listed)

1. Our natural environment
2. Our community
3. Education and training
4. Parks and playgrounds
5. Arts culture and heritage
6. Our location

What we want improved in our Region (rankings)

1. Transport and Infrastructure
2. Environmental Sustainability
3. Economic Development
4. Shopping
5. Tourism

(K)Doc 1.DPwA, page 12

(K) Doc 3. ARC Shape your region Community Plan 2022-2032 Engagement Summary

(K) Doc 4.ARC Community Satisfaction Survey Jan 2022

(K1) Doc 37 Community Strategic Plan

The 'What we want improved in our Region' items above is supported by responses to the Community Special Rate Variation Survey conducted in August/ September 2022. Although 66% of respondents preferred the Managed Decline Scenario, an average of 60% of this same group were (L) also unsupportive or only somewhat supportive of reduced spending on the twelve categories included in the SRV. Overall, on average more than 67% of respondents were also unsupportive or only somewhat supportive of reduced spending on the twelve categories included in the SRV.

(L)Doc 6. ARC Special Rate Variation Survey Analysis – November 2022 – pages 2, 4, 5 and 6

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

IPART will also take into account whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the SV.

Council has a catch up amount of \$91,000 available to it from the audited permissible income returns for the year ended 30 June 2023. It intends to include the catch up amount in rate modelling for the 2023/24 financial year but only to the extent that it forms part of the SRV increase taken to the community (maximum of 58.8% cumulative over 3 years). The catch up amount represents 0.44% of total ordinary rate revenue excluding the proposed SV amount.

Note: Reference to IP&R documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 3, Council LTFP, section 3.2, pp 20-25.

Financial sustainability of the council – What will be the impact of the proposed special variation?

The proposed SV may be intended to improve the council's underlying financial position for the General Fund, or to fund specific projects or programs of expenditure, or a combination of the two. We will consider evidence about the council's current and future financial sustainability and the assumptions it has made in coming to a view on its financial sustainability.

In the **table**, the council's response should explain:

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

Table 3 Council's financial sustainability

Item	Description	Reference to IP&R documents All page numbers refer to the electronic page reference
Improve the councils underlying financial position for the general fund	<p>As noted above, Council initially developed three LTFP scenarios. The first scenario named Unmanaged Decline resulted in operating deficits before capital grants of nearly \$41 million over the life of the LTFP and indicated that Council would run out of cash by 2030-31. Council therefore focused upon two scenarios as follows: (M)</p> <ul style="list-style-type: none"> • The Baseline Scenario (also known as Managed Decline) • The Proposed SV Scenario (also known as SRV 50% Over 3 Years) 	(M)Doc 5. ARC Adopted LTFP 2023 to 2032 – pages 63 to 92 of Resourcing Strategy Adopted June 2022

These LTFP scenarios have been developed using the best information available in relation to expenditure and income trends, to monitor Council's long term financial sustainability. Through managing expenditure against available income over many years, Council has been able to consistently produce financial ratios that, for the best part, satisfy industry benchmarks. However, infrastructure ratios have been trending negative against benchmarks and are projected to deteriorate further if an allocation of greater funding is not forthcoming. Increasing operating expenditure in comparison to revenue has resulted in less funding or deferral of typical renewal activities, such as building and infrastructure asset renewals, which are highly important to deliver and maintain agreed community service levels.

Council General Fund actual results over the past three years show the following: (N)

Blue indicates the target is met.

Red indicates the target is not met.

Year ended 30 June:	Target	2022	2021	2020
Financial Ratios				
Operating Performance Ratio	>0%	4.50%	7.27%	6.72%
Own Source Operating Revenue Ratio	>60%	61.32%	63.21%	54.12%
Unrestricted Current Ratio	>1.5x	2.27x	2.41x	2.64x
Debt Service Cover Ratio	>2x	4.94x	5.18x	4.07x
Rates and Annual Charges Outstanding Ratio	<10%	5.35%	5.51%	6.36%
Cash Expense Cover Ratio	>3 mths	11.91	8.83	6.3
Infrastructure Ratios				
Building and Infrastructure Renewals Ratio	>=100%	39.26%	14.27%	27.36%
Infrastructure Backlog Ratio	<2%	11.22%	1.91%	2.13%
Asset Maintenance Ratio	>100%	85.46%	67.49%	84.31%
Cost to Bring Assets to Agreed Service Level		21.65%	5.83%	6.45%

(N)Doc 7, ARC Annual Financial Statements for the years ended 30 June 2022 and Annual Financial Statements, 2020 and 2021 which can be found on council's website under 'Council' (armidaleregional.nsw.gov.au/council/council-governance/financial-statements)

A copy of Council's audited financial statements for the year ended 30 June 2022 is included as Attachment Doc 7, ARC Annual Financial Statements 2022- Final.

Council acknowledges that the renewal and maintenance of its infrastructure assets is paramount to the delivery of services to the community and that these services are well received by the community. Annual cost increases incurred by councils have further eroded the level of funding available for renewals and the increasing maintenance levels. On this basis, the infrastructure ratios are projected to continue to decline and the future cost of asset rectification will increase significantly.

The Baseline Scenario has been developed applying a reduction of \$2 million (indexed annually) to council's current service levels from 2023-24 onwards. There has also been a reduction in (O) capital expenditure from 2023-24 averaging \$5.8 million over the last nine years of the LTFP.

In the Proposed SV Scenario, council's current service levels are maintained. An increase in roads maintenance expenditure is assumed in 2025-26 and 2026-27 in order to improve the asset maintenance ratio. There is no reduction in capital expenditure which remains in line with the ten year capital works program.

Details of the assumptions for this and other scenarios are set out on pages 63 to 71 of the revised Resourcing Strategy 2022-2023 at Attachment Doc 5, ARC Adopted LTFP 2023 to 2032 - Final.

As noted earlier in this application, the Baseline Scenario resulted in the following key ratio results:

- Operating performance ratio of between -2.7% and -4.8%;
- Buildings & infrastructure renewals ratio of between 67% and 105%; (P)
- Infrastructure backlog ratio increasing from 2.0% to 3.0%;

The proposed SV Scenario resulted in the following improved key ratios:

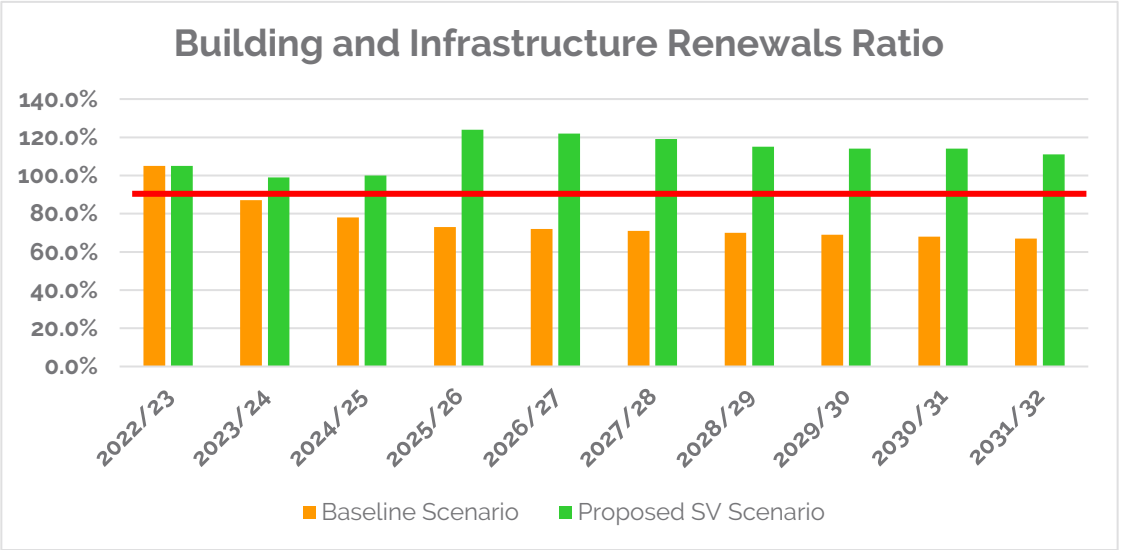
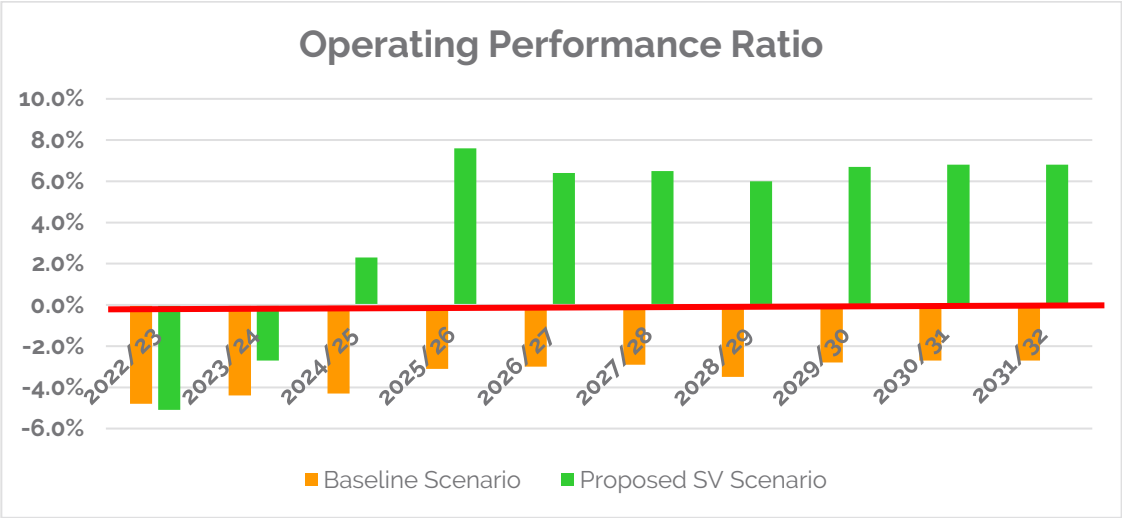
- Operating performance ratio of between 6.0% and 7.6%;
- Buildings & infrastructure renewals ratio of between 111% and 124%;
- Infrastructure backlog ratio declining from 1.9% to 1.5%;

The impact of the proposed SV can be seen in the following graphs of Council's General Fund Operating Performance Ratio and Asset Renewal Ratio. As can be seen below, the ratios begin to exceed the OLG benchmarks by the second year of the SRV and remain there over the life of the SRV.

(O) Doc 5, ARC Adopted LTFP 2023 to 2032 – pages 64 to 65 of Resourcing Strategy Adopted June 2022

Doc 5, ARC Adopted LTFP 2023 to 2032 - Final on pages 63 to 71

(P)Doc 5, Adopted LTFP 2023 to 2032 – pages 68 to 70 of Resourcing Strategy Adopted June 2022

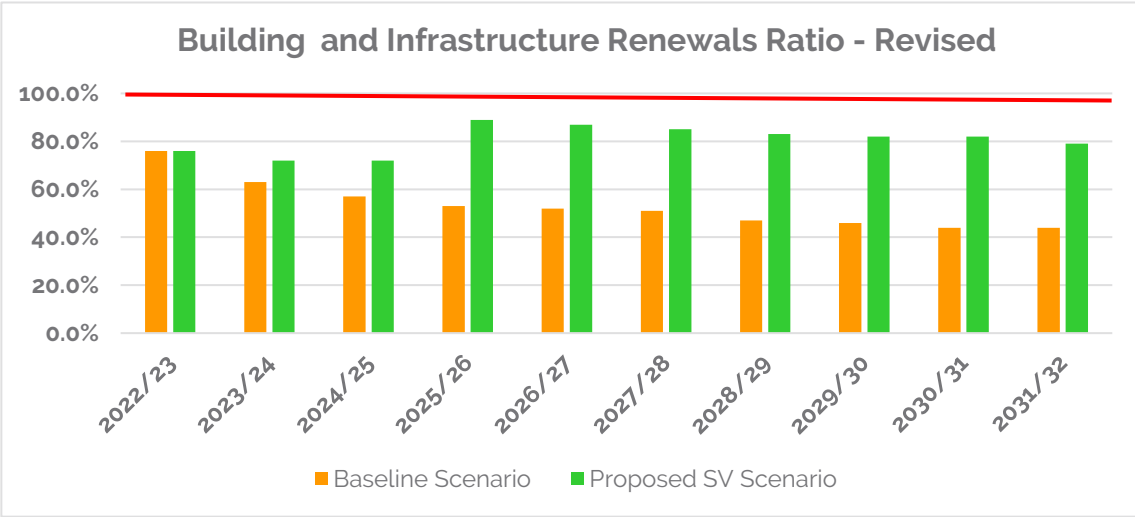
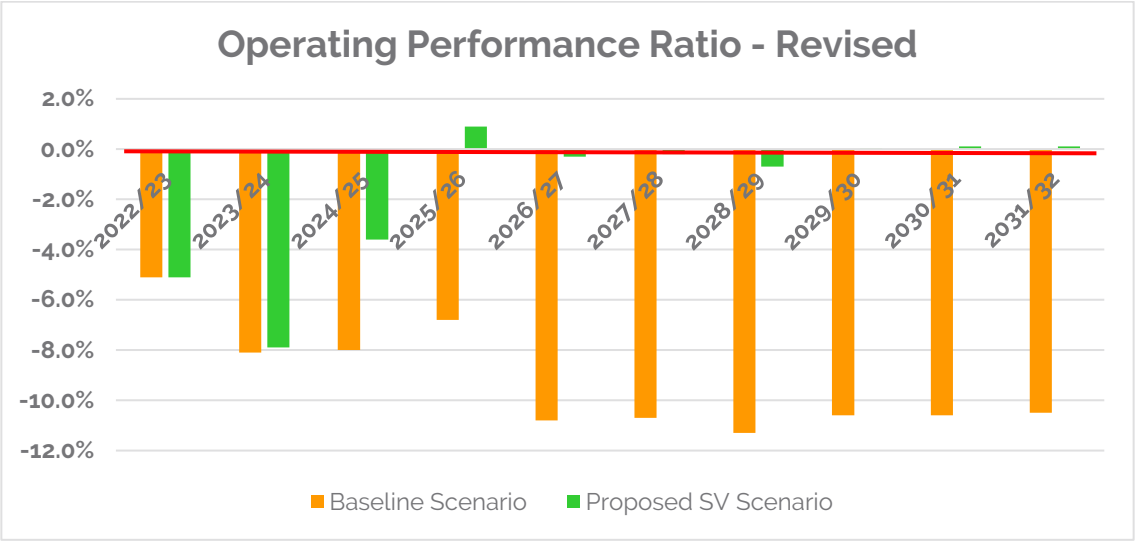


One of the factors that ‘muddies the waters’ of the operating performance ratio is the surplus generated by the waste management functions of Council. Both domestic waste and other waste management activities currently generate surpluses in excess of \$3 million per annum. Part of this surplus relates to the landfill levy imposed by Council on all ratepayers, mostly for the purpose of funding the construction of the new landfill site on Waterfall Way in Armidale. As part of the community consultation, Council agreed to reduce this levy on a staged basis over the same three year period that the SRV was introduced. This decision reduces the surplus in the General Fund by over \$18.5 million over the nine years of the LTFP. The remaining ‘Waste’ surpluses are retained as either internal or external restrictions for the purpose of funding new cells within the landfill site, for restoration of old sites that have reached the end of their useful lives and for other landfill management activities. Council’s asset management plans show that the funds will be spent over the life of the landfill and will therefore eventually move towards a Nil position.

Council completed its financial statements for the year ended 30 June 2022 which identified that the adopted LTFP had underestimated depreciation, particularly as all asset classes had to be revalued at 30 June 2022 to allow for the impact of much higher inflation and a constrained workforce. This has added over \$2.3 million per annum to the expenditure costs of Council which lowers both the Operating Performance (Q) Ratio and the Infrastructure Renewal Ratio.

(Q)Doc 8. ARC
Resourcing Strategy
Adopted January 2023
Adopted LTFP 2023 to
2032 – pages 73 to 77

These two changes, together with the inclusion of the actual rate peg for 2023-24 of 3.7%, have resulted in changes to both the Baseline Scenario and the Proposed SV Scenario. The two key ratio graphs above can therefore be revised as follows:



Although the revisions to the scenarios are detrimental to some of the key ratios, the impact of the SRV is such that the Operating Performance Ratio is very close to or above the OLG benchmark, whilst the Building and Infrastructure Renewals Ratio is just below the benchmark but could be improved should council decide to reassign new or upgrade capital works into renewals in the latter four years of the LTFP scenario. Without the SRV, both versions of the Baseline Scenario show that a drop in both operational and capital expenditure is needed from 2023-24 to compensate for the shortfall in funding. As Operational service levels are assumed to drop by \$2 million per annum, significant reductions and/or removal of services would be necessary. Core maintenance service levels would remain underfunded. So too, capital service levels would not be funded to the extent of approximately \$6 million per annum and this is reflected against the funding requirement for asset renewal. The condition of infrastructure will therefore deteriorate, the infrastructure backlog will increase and it will cost more in the long run to return assets to the agreed service level.

And / Or
Fund specific programs of expenditure
Other <i>[please overwrite cell to add other item]</i>

Note: Reference to IP&R documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 3, Council LTFP, section 3.2, pp 20-25.

Financial indicators – What will be the impact of the proposed special variation on key financial indicators over the 10-year planning period?

In the text box please give a brief explanation on how the proposed SV would affect the council's key financial indicators (for the general fund, over the 10-year planning period):

As noted above, the SRV allows Council to move its operating performance ratio and building & infrastructure renewal ratios from being below the OLG benchmarks to equal to or above those same benchmarks.

The ratios below are from the revised SRV scenario adopted January 2023 for the **General Fund** only. Note that the revised LTFP includes the adjustment for increased depreciation as a consequence of revaluations posted to the council ledgers for the year ended 30 June 2022. Note also that the infrastructure backlog ratio for 2022 was calculated based upon the Code of Accounting Practice, a significant change in methodology, whereas the LTFP amounts remain based on the 2021 base amount of 1.95%.

In Table 5 please provide the councils key financial indicators.

Table 5 Council financial indicators

Ratio – SRV Scenario	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Operating performance ratio excluding capital items	4.5%	-5.1%	-7.9%	-3.6%	0.9%	-0.3%	-0.2%	-0.7%	0.0%
Own source revenue ratio	61.32%	38.0%	78.0%	79.0%	80.0%	80.0%	80.0%	80.0%	81.0%
Building and asset renewal ratio	39.26%	76.0%	72.0%	72.0%	89.0%	87.0%	85.0%	83.0%	82.0%
Infrastructure backlog ratio	11.22%	1.8%	1.9%	2.0%	2.0%	2.1%	2.1%	2.2%	2.3%
Asset maintenance ratio	85.5%	88.0%	88.0%	88.0%	93.0%	100.0%	100.0%	100.0%	100.0%
Debt service ratio	4.94x	3.7x	4.0x	5.1x	6.8x	17.5x	21.3x	26.2x	35.3x
Unrestricted current ratio	2.27x	3.5x	3.2x	3.2x	3.9x	4.0x	4.2x	4.4x	4.8x
Rates and annual charges ratio	5.35%	5.11%	5.44%	5.5%	5.57%	5.55%	5.57%	5.58%	5.59%

Criterion 2 – Community awareness and engagement

Criterion 2 in the SV Guidelines is:

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

To complete the questions for criterion 2 provide relevant extracts of the IP&R documents that set out the rate rises under the proposed SV and attach relevant samples of the council's consultation material.

The response should provide details and examples to demonstrate the clarity of information presented in the consultation materials, including information about:

- The need for the proposed SV.
- Specific programs or projects, levels and types of services, investment in assets and the options for funding them by rate increases.
- The proposed cumulative rate increases including the rate peg for each major rating category (in both percentage and dollar terms), particularly where the increase is to be applied differentially across ratepayer categories (i.e. rates will not increase uniformly by the SV percentage).
- The annual increase in average rates that will result if the proposed SV is approved in full (and not just the increase in daily or weekly terms).
- The size and impact on rates where an existing SV will continue, expire, be renewed or replaced at the end of the current financial year or during the period when the requested SV will apply.
- The rate levels that would apply without the proposed SV (clearly showing the impact of any expiring SV).
- Outlining evidence of residents and ratepayers being aware of the proposed SV.
- Outcomes could include the number of people reached by mail outs, the number of attendees at events and participants in online forums, the number of submissions made, surveys or feedback forms completed, as well as evidence of media reports and other indicators of public awareness of the council's SV intentions.
- Explaining how the community responded and the feedback the council received about its proposal.

The response should indicate how participants responded to any surveys, particularly the level of support for specific programs or projects, levels and types of services, investment in assets, as well as the options proposed for funding them by rate increases. Where the council has received submissions from the community relevant to the proposed SV, the application should set out the views expressed in those submissions.

Although this criterion does not require the council to demonstrate community support for the proposed SV, it is required to consider the results of the community consultation in preparing the application. The response should identify and document any action taken, or which will be taken, to address issues of common concern within the community about the proposed SV.

Some councils will need to provide additional information in their response to demonstrate how consultation material explained to the community details about the proposed SV and its impact on rates to reflect the specific circumstances of their application, for example:

- If the council is **renewing or replacing an expiring SV**, information was provided about the purpose, and duration of the expiring SV, the original and current percentage of general income the SV represents, whether the new SV is temporary or permanent, the amount of any *additional* increase above the rate peg being requested, and that if the proposed SV is not approved (i.e. only the rate peg applies), the year-on-year change in rates would be lower, or that rates may fall
- If the council **has an existing (ongoing) section 508A SV** and is applying for an *additional* SV, how the consultation material explained details about the existing SV, its size and duration, and the impact on rate levels when it does expire, as well as the impact on rate levels and annual increases with and without the additional SV.
- If the council proposes to **increase minimum rates**, the increase to minimum amounts, and any change to the proportion of ratepayers on the minimum rate for all relevant rating categories which would occur as a result of the SV.
- Where the council intends to **make any changes to the rating structure in 2023-24** in conjunction with the proposed SV, such as changes to subcategories and adjusting ad valorem rates following new land valuations, the need for or purpose of the change and its impact was explained to the community.

How did the council engage with the community about the proposed special variation?

In the table below please provide evidence as to how the councils community engagement met criterion 2.

Table 4 Evidence of council's community engagement meeting criterion 2

Criteria	Evidence of meeting this criterion	Reference to application supporting documents All page numbers refer to the electronic page reference
Evidence that the community is aware of the need for and extent of a rate rise.	<p>The Armidale Regional Council community has been made aware of the need for and extent of a rate rise, through the following communications from Council:</p> <p>In 2020-2021, Armidale Regional Council applied to make a temporary 10% SRV (that applied to the former ADC) permanent through a successful application to IPART. A higher proposal by (R) Council staff was not supported by the former Councillors, and making permanent the existing 10% SRV did not provide any increase in rates, despite increasing asset renewal requirements and inadequate cash reserves. An unsustainable financial position remained, for the most part, unaddressed.</p> <p>Council considered a number of scenarios when deliberating how to adequately address financial sustainability while also working toward achieving the community's aspirations in the Advancing our Region Community Plan (R1). In the end, Council agreed that a Special Rate Variation was required, and developed its Integrated Planning and reporting documents on this premise.</p> <p>Council was proactive and transparent in its approach to community engagement. While the Draft Community Plan, Draft Delivery Program, and Draft 2022-2023 Operational Plan and Budget were on public exhibition in May and June 2022, Council utilised the opportunity to begin a conversation with the community about the need for an SRV.</p> <p>Council held public meetings in both Guyra and Armidale, outlining to the community the rationale behind the proposed 50% SRV as part of a turnaround strategy for the Council. The public was also informed that further consultation about the proposed SRV would be forthcoming.</p>	<p>(R) Doc 1.DPwA, page 47</p> <p>(R1) Doc 37 Community Strategic Plan</p>

At the Ordinary Council Meeting of 29 June 2022, Councillors adopted a suite of Integrated Planning and Reporting documents that were based on a proposal for a 50% rate rise (cumulative 58.81%) over three years. This included a plan to conduct community engagement on the proposed rate rise during August and September 2022.

The Delivery Program adopted at the Ordinary Council Meeting of 29 June 2022 detailed the (S) need for a 50% SRV from the very start. In the General Manager's Message, he stated:

(S) Doc 2, ARC Delivery Program 2022-2026 adopted June 2022 (DP), pages 6 to 7

"The adopted 2021-22 budget projected a consolidated operating surplus of just over \$1m with no changes forecast for the unrestricted cash position (Council's main buffer for unexpected events).

Council faced a projected \$7.8m funding shortfall for core operational and capital service level and asset renewal requirements. Just maintaining current service levels would have required a 40% increase in general rate revenue.

This situation has not changed leading into the 2022-23 and in fact has been exacerbated; the Special Rate Variation (SRV) required to ensure ARC's future sustainability and longevity sits conservatively at approximately 50%.

The Long Term Financial Plan (LTFP) forecasts an asset renewal ratio of 83% in 2021-22 and the average ratio for the General Fund over ten years is 58%. With a required industry benchmark of 100% or greater and \$1.2 billion of infrastructure assets under Council's control and management, the General Fund infrastructure ratios outlook is clearly not sustainable longer term."

He went on to say

"Armidale Regional Council has had a systemic revenue problem for many years and for far too long previous councils have underestimated or ignored the real cost of maintaining assets such as our road network and providing services to the community – we must now turn this around in order to grow and be sustainable.

To do this, it is proposed that Council seek a SRV that would see rates increase by 50% over three years. While it hasn't been finalised, for an average Armidale home this increase would be in the order of \$237 per year for three years and around \$113 per year for three years for an average Guyra home."

He then went on to say:

The “proposed SRV is part of the solution to:

- i. Improve financial sustainability by eliminating the General Fund operating deficit;
- ii. Deliver the services as outlined in the draft Integrated Planning and Reporting documents;
- iii. Provide sufficient funding to meet asset renewal funding requirements and appropriately manage the infrastructure backlog; and
- iv. Meet compliance obligations under the Local Government Act and other forms of legislation.”

The Delivery Program 2022-2026 adopted in June 2022 noted throughout that document that (T) some of the Delivery Program initiatives would require additional financial contributions through a Special Rate Variation. These Initiatives are marked with the following: **\$SRV**

(T) Doc 2, ARC Delivery Program 2022-2026 adopted June 2022 (DP), page 16

Council undertook community consultation by way of a variety of means, including those detailed in the table below. These consultations raised awareness of the need for and extent of the rate rise specified in the SRV proposal.

	Responses	% of ratepayers
Rates instalment newsletter		
Radio advertisements	Ads for one month	
Newspaper advertisements	4 advertisements	
Social media posts	1,758 views of social posts	13.5%
Media releases	One release	
Letter mailed to all ratepayers		
Your Say Armidale website	<u>Overall</u>	
Information pack and Rate Myths Sheet	2,300 visitors	17.6%
What will I pay info sheet	637 downloads	4.9%
Surveys submitted	362 surveys	2.8%
Comments made	46 forum comments	0.4%

Community and business panel meetings	6 meetings, 25 participants	0.2%
Public meetings	4 meetings, 250 attendees	1.9%
Stakeholder meetings	2 meetings, 25 participants	0.2%
Written submissions	102 submissions	0.8%

Following community consultation and the receipt of numerous associated reports, Council resolved to place on public exhibition, and subsequently adopt, a revised Delivery Program (U) 2022-2026 which included an addendum on the proposed Special Rate Variation. That addendum, together with some minor wording updates to the original Delivery Program, detailed the path Council had taken, and issues it had considered, in deciding to apply for a Special rate Variation of 50% (58.81% cumulative) over three years.

(U) Doc 1.DPwA, page 46

The information that it considered relevant to this decision were largely set out in the Resourcing Strategy adopted in June 2022. This document outlined that:

“Council does not have a sufficient level of funding to deliver the required service levels (V) from an asset maintenance perspective and renewal perspective. Council’s ratios are unable to be improved without additional funding being sought including through a special rate variation (SRV) process. There is a large asset base valued at over \$1 billion in infrastructure, and the projections for key infrastructure ratios are currently at unacceptable levels in the LTFP without additional investment in asset renewal on an ongoing basis.”

(V) Doc 5. ARC Resourcing Strategy adopted June 2022, page 17

The LTFP contained within the Resourcing Strategy detailed the need for an SRV as a means of addressing the underlying problems with Council’s financial position. Specifically, it made the following initial observations:

“There is a large structural deficit inherent in the existing General Fund budget, and the (W) following issues exist and need to be addressed:

(W) Doc 5, ARC Resourcing Strategy adopted June 2022, pages 54 to 55

- Ongoing low unrestricted cash position,
- Insufficient funding for operational service levels,
- Insufficient funding for the maintenance and renewal of assets,
- Inability to take on additional borrowings without creating further financial stress, and

- High reliance on grant funding for core asset renewal programs.

Given Council's position of looking to resolve the above issues through additional funding sources, the 2022-23 budget and LTFP has been determined taking the following areas into account:

- The current financial outlook.
- The activities contained in the Delivery Program 2022-2026, which provides for the community aspirations for Regional Activation and Growth.
- Asset renewal funding requirements identified in the Ten Year Capital Works program."

It has been determined that Council will not cut service levels and will look instead to:

- Implement activities to achieve financial improvement, such as seeking to fully recover costs for some services and commencement of a service review process, and
- Commence a SRV process with a view to making an application to IPART by February 2023.

(X) Doc 5, ARC Resourcing Strategy adopted June 2022, page 61

The LTFP detailed how the funding gap between total asset renewal and available funding would be the predominant issue to be addressed by an SRV. (X)

(Y) Doc 5, ARC Resourcing Strategy adopted June 2022, page 63

One of the two scenarios developed by Council was developed on the basis that "Council seek a permanent SRV of 50% over three years, which would result in a cumulative 58.81% SRV (Y) including the rate peg. The SRV would take effect from 2023-24."

The need for an SRV was summed up in the LTFP summary of Council's current financial position which showed that under a Baseline Scenario:

(Z) Doc 5, ARC Resourcing Strategy adopted June 2022, page 67

"Operational service levels are assumed to drop by \$2 million per annum and this would (Z) require significant reductions and/or removal of services. Core maintenance service levels remain underfunded.

Capital service levels are not funded to the extent of approximately \$6 million per annum and this is reflected against the funding requirement for asset renewal. The condition of infrastructure will deteriorate, the infrastructure backlog will increase and it will cost more in the long run to return assets to the agreed service level."

This summary went on to say that under an SRV Scenario:

“The additional funding by way of the SRV resolves the financial problems evident in the baseline scenario and allows Council to:

- maintain existing service levels,
- improve core maintenance service levels to meet the asset maintenance ratio,
- fully fund the capital program, and
- over time, build financial capacity that could be used to improve services, invest in infrastructure upgrades and allow for the build-up of internal reserves.”

Community Awareness Through Consultation

As noted earlier, to help the community become aware of the need for and extent of a rate rise, Council undertook consultation which included the various communication modes detailed below under the criteria *‘The council’s community engagement strategy for the SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.’*

(AA) Doc 9. ARC Community Engagement Report, pages 4 to 7

A summary of how the community consultation delivered the message of the need for and extent of a rate rise is summarised in the Community Engagement Report. (AA)

The Delivery Program and LTFP should clearly set out the extent of the General Fund rate rise under the SV, for the average ratepayer, by rating category.

As noted elsewhere in this application, the Delivery Program and the Resourcing Strategy (AB) (including the LTFP) have both detailed the extent of the General Fund rate rise under the SRV for the average ratepayer by rating category.

(AB) Doc 1. DPwA, page 53
(AB) Doc 5. ARC Resourcing Strategy adopted June 2022, pages 61 and 65

The council need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.

Contained in the *What Will I Pay? Fact Sheet*. Residents also had the opportunity to call Council to obtain a more precise estimate of the impact of an SRV on their property.(AC)

(AC) Doc 9. ARC Community Engagement Report, attachment 1E pages 32 to 36

The council’s community engagement strategy for the SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.

As noted in the Community Engagement Report, the following types of community engagement and communication were undertaken by Council to reach as many people within the (AD) community as possible about the proposed SRV:

- Reference panels – community and business
- Community meetings
- Targeted stakeholder meetings
- Community survey

(AD) Doc 9. ARC Community Engagement Report, pages 4-7

- Ratepayer newsletter
- Advertising through local radio and newspaper
- Social media posts via Facebook and Instagram
- Ratepayer letter
- Project page on 'Your Say Armidale'
 - Information pages provided
 - Public forum open
 - Details of meetings and other information

Through these various forms of engagement, Council was able to (AD-2)

“test community perceptions and opinions on the proposed special rate variation prior to Council deciding whether to apply to IPART in February 2023. The methodology aimed to provide information to the community to explain the rationale and to ensure that all people who were interested or affected had access to good information and were able to have their say.”

(AD-2) Doc 9. ARC Community Engagement Report, page 6

Details of the work undertaken in each area and in some cases, the outcomes of that engagement, are detailed within the Community Engagement Report. This report also contains a series of attachments that provided the community with additional information about the proposed SRV, such as: (AD-3)

- The Information Pack for Community Feedback
- The 'Your Say Armidale' website
- Letter to all households
- Rate Myths Fact Sheet
- What Will I Pay? Fact Sheet
- Community Survey

(AD-3) Doc 9. ARC Community Engagement Report, pages 15 to 40

Explain the action, if any, the council took in response to feedback from the community

During the early stages of the community consultation, and particularly after a number of (AE) the community and business panel meetings, Council became aware of the lack of understanding by the community about how total rate revenue was calculated and hence, could be increased. Consequently, Council produced a *Rate Myths Fact Sheet* to help educate the community about rates revenue. Council also adjusted some of its presentations to the public to make the community aware of how rate revenue could rise.

(AE) Doc 9. ARC Community Engagement Report, attachment 1D pages 28 to 31- Rate Myths Fact Sheet

Some ratepayers noted that they were unable to attend any of the public meetings conducted for the purpose of explaining the SRV to the community. As a consequence of this, Council (AF) conducted a further online public meeting which it recorded, and this was published on the 'Your Say Armidale' web page for download.

(AF) Doc 9. ARC Community Engagement Report, attachment 1A page 17- Videos – Briefing Proposed 50% Special Rate Variation

Some ratepayers told us that they knew nothing about a proposed special rate variation. Council subsequently issued a letter to all households to raise awareness of the proposed SRV. (AG)

(AG) Doc 9. ARC Community Engagement Report, attachment 1C page 27- Letter to all households

As part of the consultation process, Council asked residents to complete a survey which (AH) included the option for free text. A summary of the survey was completed and freehand comments and suggestions were compiled within a report which was presented to the Ordinary Meeting of Council on 23 November 2022. At this same meeting, a summary of submissions from the community was also presented as information for councillors to consider before voting on the resolution to apply to IPART for a special rate variation. (AI)

(AH) Doc 6. ARC Special Rate Variation Survey Analysis – November 2022

(AI) Doc 10. ARC SRV Submissions from Community Consultation

Note: Reference to application supporting documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 7, Community mailout leaflet, section 1, pp 1-3.

In the text box below, provide any other details about the councils: consultation strategy, timing or materials that are not captured in Table 4.

In November 2021 as part of the development of the Community Plan, a Community Satisfaction Survey was undertaken –Doc 3 ARC Shape your region Community Plan 2022-2032 Engagement Summary and Doc 4. ARC Community Satisfaction Survey Jan 2022.

In the Community Satisfaction Survey (2021), which included a random telephone survey of n400 residents, the most important facilities and services included:

- A well-run and managed Council (82% critical)
- Waste and recycling (59% critical)
- Sealed roads (54% critical)
- Economic development and attracting new investment (50% critical)

Satisfaction scores for services were ranked against perceived importance providing some key priorities:

- Sealed roads
- Community information and consultation
- DAs and planning
- Economic development and attracting new development
- Being a well-run Council

These results aligned with the community engagement feedback outlined in the Shape Your Region Engagement Summary conducted also in October and November of 2021. The results of the postcard survey (437 respondents) indicated that Transport Infrastructure was what respondents most wanted to be improved in our region – this was followed by Environmental Sustainability, Economic Development Growth, Shopping Variety and Tourism.

The same postcard survey resulted in the community saying that they would like our region to be 'Economically Robust' by 2032, along with environmentally sustainable, led through good governance, have a strong tourism sector and be a cohesive community.

Key themes out of the 1,800 respondents across six methods of data collection (postcards, online survey, phone survey, in-person meetings, school postcard survey and online budget tool) included economic development and tourism, transport, environmental sustainability, good governance and community cohesion. All of these themes were developed into key pillars of the Advancing our Region Community Plan, and informed the Council Initiatives in the Delivery Program 2022-2026 (including those Initiatives to be funded by a potential 50% (58.8% cumulative) SRV).

In the text box below, please provide any other details about the community's involvement in, engagement with or support of the proposed SV not captured in Table 4.

In Table 5 please list out any other attachments that the council has relied on to respond to criterion 2 not otherwise detailed in Table 4.

Table 5 Other criterion 2 attachments

Attachment number	Name of document	Page references ^a All page numbers refer to the electronic page reference
Doc 11	Doc 11. ARC SRV Community Meetings PowerPoint Presentation	3, 14-17, 23-26, 36-38
Doc 12.	Doc 12.Budget Meeting PowerPoint Presentation 2022-23	9, 16-19, 29-34
Doc 13	Doc 13. ARC Media Release Aug 2022 Proposed Special Rate Variation	1-2

a. If document is only relevant in part.

Criterion 3 – Impact on ratepayers

Criterion 3 in the SV Guidelines is:

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

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

In assessing the impact, IPART may also consider:

- Socio-Economic Indexes for Areas (SEIFA) data for the council area: and
- Whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act.

This Application Form asks four questions for criterion 3. Councils should provide evidence to demonstrate:

1. the **impact on rates** of the proposed SV, including the **impact on minimum amounts** of any ordinary or special rate
2. how the council considered that the proposed rate rises were **affordable, having regard to ratepayers' capacity and willingness to pay**
3. how the council **addressed concerns about affordability** in determining the special variation is applied for, and
4. the council's plans for **addressing hardship** ratepayers may experience in meeting their obligations to pay rates in the future.

As well as considering the evidence provided by the council to demonstrate that the proposed rate increase is affordable for its community, IPART will undertake its own analysis of affordability by considering a range of data, including:

- the average growth in the council's rates in recent years, including previous SV increases
- how the council's average rates, current and under the proposed SV, compare with those in similar councils, and
- socio-economic indicators such as median household income, average rates to income ratio, outstanding rates ratio and SEIFA ranking.

The council's response to criterion 3 should also indicate how the required information is reflected in the Delivery Program and Long Term Financial Plan.

Is the impact on rates of the proposed special variation reasonable?

Although much of the quantitative information we need on the impact of the proposed SV on rate levels will already be contained in Worksheets 5a and 5b of SV Application Form Part A, the response to this question should clearly set out:

- the impact on rates across the council's rating structure should the SV be approved, compared with
- the rate levels which would apply if the SV is not approved.

This information should be provided in a table indicating average rates in 2023-24, and then both the dollar and percentage increase for each rating category and subcategory for each year of the proposed SV, and the cumulative increases for the whole period.

A simple table is sufficient where the council intends to apply the proposed SV percentage increase in general income to all rating categories and subcategories.

The approach is likely to be more complex where the council is applying an increase differentially across ratepayer categories or making any changes to the rating structure in 2023-24. In this case, the council's response should explain the basis for allocating the increase to general income among the ratepayers and how the rating structure would be different from that which would apply if the SV is not approved, and why. This information will be relevant to our assessment of the reasonableness of the impact on ratepayers.

If relevant, the council's response should also indicate the impact of any other anticipated changes (e.g. receipt of new valuations) in the rating structure, or any changes to other annual ratepayer charges such as for domestic waste management services. Please provide the council's response in the text box below.

Council's rate structure is based on a base rate plus ad valorem rate in the dollar for all rate categories. In 2021/22 Council commenced the process of rates harmonisation within the former Armidale Dumaresq and Guyra Shire Council rate structures. This process will be finalised by the 2024/25 rating year. The rating impacts below are modelled over the harmonised rating structure that has been included in the revised Delivery Program. Although council intends to apply the proposed SV percentage increase in general income to all rating categories and subcategories, the impact of rates harmonisation does impact upon the final outcome for each rating category.

Council has outlined the average impact of the proposed SV for each rate category in the revised Delivery Program on page 53 of Attachment Doc 1. ARC Delivery Program 2022-2026 with Addendum (DPwA) – Nov 2022. A more precise assessment of the impact of the SRV on individual ratepayers was provided as part of the community consultation – see Doc 9. Community Engagement Report, attachment 1E pages 32 to 36.

The table below is a summary of the information contained in the Application Form Part A Special Rate Variation 2023-24 (tab WK4 – PGI summary).

			Avg Rate + SV				
Harmonised Rating Category 1 July 2023	Assess't numbers	2022/23 Average Rate	2023/24	2024/25	2025/26	\$ Increase over 3 years	% Increase over 3 years
Residential							
Armidale	8,330	1,173	1,370	1,616	1,890	717	61.13%
Guyra	959	568	642	833	893	325	57.22%
Wollomombi	16	496	443	389	421	- 75	-15.12%
Ebor	16	434	443	482	533	99	22.81%
Hillgrove	101	587	496	482	533	- 54	-9.20%
Armidale Non-	1,094	1,186	1,400	1,660	1,950	764	64.42%
Guyra Non-Urban	157	664	1,066	1,085	1,259	595	89.61%
Village (Guyra)	145	401	437	492	546	145	36.16%
Business							
Armidale	551	4,875	5,708	6,726	7,865	2,990	61.33%
Guyra	94	961	1,128	1,383	1,617	656	68.26%
Armidale Non-	62	1,029	1,312	604	714	- 315	-30.61%
Village (Guyra)	16	328	339	265	285	- 43	-13.11%
Farmland							
Armidale	827	3,470	3,880	4,060	4,765	1,295	37.32%
Guyra	658	3,442	4,313	5,409	6,425	2,983	86.66%
Intensive	2	6,943	8,159	9,571	11,203	4,260	61.36%
Mining							
Mining	11	5,672	6,992	7,962	9,310	3,638	64.14%
Drainage Charge							
Armidale	9,059	50	50	50	50	-	0.00%
Total	13,039	1,562	1,822	2,126	2,480	918	58.80%

The table below is a summary of what each category of ratepayer would pay if the special rate variation application was not successful. This information is not contained within the Application Form Part A Special Rate Variation 2023-24.

			Avg Rate+ rate peg + catch up				
Harmonised Rating Category 1 July 2023	Assess't numbers	2022/23 Average Rate	2023/24	2024/25	2025/26	\$ Increase over 3 years	%Increase over 3 years
Residential							
Armidale	8,330	1,173	1,225	1,256	1,288	115	9.80%
Guyra	959	568	574	587	607	39	6.87%
Wollomombi	16	496	512	345	349	- 147	-29.64%
Ebor	16	434	448	413	419	- 15	-3.46%
Hillgrove	101	587	606	413	419	- 168	-28.62%
Armidale Non-	1,094	1,186	1,214	1,267	1,302	116	9.78%
Guyra Non-Urban	157	664	909	850	871	207	31.17%
Village (Guyra)	145	401	413	420	427	26	6.48%
Business							
Armidale	551	4,875	5,015	5,140	5,269	394	8.08%
Guyra	94	961	991	1,029	1,040	79	8.22%
Armidale Non-	62	1,029	1,151	1,173	1,203	174	16.91%
Village (Guyra)	16	328	312	368	374	46	14.02%
Farmland							
Armidale	827	3,470	3,548	3,295	3,372	- 98	-2.82%
Guyra	658	3,442	3,751	4,307	4,418	976	28.36%
Intensive	2	6,943	7,164	7,345	7,535	592	8.53%
Mining							
Mining	11	5,672	6,172	6,326	6,485	813	14.33%
Drainage Charge							
Armidale	9,059	50	50	50	50	-	0.00%
Total	13,039	1,562	1,620	1,660	1,702	140	8.95%

Council's long term financial plan (contained in the Resourcing Strategy 2023-2032 and included as Attachment Doc 5.) contains some assumptions around increases for other fees and charges on pages 63 to 64 (pages 66 to 67 in Doc 8. ARC Resourcing Strategy revised Nov 2022). The impact of these assumptions on annual charges has been incorporated into the information provided in the Application Form Part A Special Rate Variation 2023-24 in the tab named WK5a – Impact on Rates. The key assumptions around price increases that will impact ratepayers depending on what services they access are:

- Annual charges for waste are assumed to increase by 2.5% per annum. The exception to this is the Landfill Levy which, as part of the community consultation, Council agreed to reduce on a staged basis over the same three year period that the SRV will be introduced i.e. from \$155 in 2022-23 to \$105 in 2023-24 to \$55 in 2024-25 to \$Nil in 2025-26;

- The value of drainage charges is set by the Local Government Act 1993 and Local Government (General) Regulation 2021 and the value of these is not planned to be changed unless there is a change in the legislated amount;
- Annual charges for water and sewerage are assumed to increase by 5.0% per annum; this is necessary to maintain the level of cash reserves available for water and sewerage infrastructure replacement and also to provide water security following prolonged drought conditions
- Non-statutory user charges and fees are assumed to increase by 2.5% per annum
- Statutory user charges and fees are assumed to increase by 2.5% per annum but actual levels will be determined by NSW Government legislation
- Water user charge revenue is assumed to increase by 5% per annum; this will not necessarily represent an increase in the value of the charge for water usage as this is determined each year in line with forecast usage levels.

Based upon the information contained within the tables above, together with the information contained within the Capacity to Pay Report (discussed later in this application), council believes that the impact on rates of the proposed special variation is reasonable.

How has the council considered affordability and the community's capacity and willingness to pay?

The council's response in the text box below should provide evidence to establish:

- That the proposed SV is reasonable in the context of the current rate levels, ratepayer base and its purpose.
- How the council considered the community's capacity and willingness to pay, and that the rate increases would be affordable for the community.

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

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

While councils should consider the affordability of the proposed rate increases for **all** affected ratepayers, in some circumstances, particularly where the increase will not be uniform for all ratepayers, councils should explain how the **affected** ratepayer capacity to pay was considered. This could apply, for example, where:

- The council intends to **apply the increase differentially across ratepayer categories**.
- The council intends to **make changes to the rating structure in 2023-24** in conjunction with the proposed SV.
- The proposal would **increase minimum rates** by a significantly high percentage.

Please provide the councils response in the text box below.

To establish the affordability of the SV and the community's capacity to pay, Council engaged Morrison Low to prepare a report on the community's capacity to pay in the Armidale Regional Council area (ARC-CTP). This report used information from a number of sources including Socio – Economic Indexes for Areas (SEIFA), household income, employment status and the rates and annual charges outstanding percentage. Information from this report is discussed further below. The report also provided Council with an objective and independent assessment to assist with the decision on whether to proceed with the SRV. (Doc 14. ARC Capacity to Pay Report)

Comparative Rating Data

Comparisons are difficult to make to other councils because of a range of factors, including the area of land in the local government area, population density and the associated number of rateable assessments, the number and types of services provided (e.g. Armidale has a commercial airport) and types of industry. Comparisons with financially-stressed councils are also problematic because it might seem they are more efficient but, in fact, they have many challenges ahead of them.

The table below contains data on average rates extracted from the OLG's Time Series Data 2020-2021 for Group 4 (Regional Town/City) councils and Northern Region councils:

[<https://www.olg.nsw.gov.au/public/about-councils/comparative-council-information/your-council-report/>]

Average Rates \$	Armidale	Group 4	Northern Region*
Residential	1,044	1,152	984
Business	3,779	4,117	3,205
Farmland	3,283	2,373	4,035
Mining	5,167	243,673	75,711
Per Capita	631	710	838
Per Assessment	1,454	1,466	1,703

*Northern Region group incorporates Armidale, Glen Innes, Gunnedah, Gwydir, Inverell, Liverpool Plains, Moree Plains, Narrabri, Tamworth, Tenterfield, Uralla and Walcha.

Council's average residential and business rates are lower than the averages for Group 4 but higher than the Northern Region councils.

Council's average farmland rate is higher than Group 4 but lower than Northern Regional councils.

Council's average mining rate is significantly lower than Group 4 and Northern Region councils.

Both council's average rate per capita and per assessment are lower than Group 4 and significantly below the Northern Region, pointing to the need to increase rate revenue in line with other neighbouring councils.

This data shows that council is mostly below the averages for both Group 4 and Northern Region and that implementing an SRV permanently in the rate base would likely place Council in a position where average rates are closer to or higher than the comparative groups.

Index of Disadvantage

Socio-Economic Indexes for Areas (SEIFA), produced by the Australian Bureau of Statistics, are an assessment of the welfare of Australian communities. The index of Advantage / Disadvantage is a composite index in which lower scores indicate more disadvantaged areas and higher scores indicate more advantaged areas.

Council's 2016 SEIFA rating was 87 and this puts Council at 8 out of 26 in the Group 4 councils and at 1 out of 12 in the Northern Region group.

In Morrison Low's Capacity to Pay Report, they observed, based upon the IRSD index (2016), that ARC "has a lower level of disadvantage compared with both Regional Development Australia's Northern Inland Region and Regional NSW, but a higher level of disadvantage compared with NSW and the nation's averages". The review also noted "there is a greater percentile shift for Armidale Regional Council than that of Regional NSW indicating that there are significant levels of wealth inequality within the LGA". This report is included as Attachment Doc 14. ARC Capacity to Pay Report_Final.

Note that the latest 2021 SEIFA rankings are not expected to be released until 2023.

Where lower disadvantage in the region exists (for example Guyra – South Guyra) the rates structure already provides for a differential in the base rate for these areas and the average rates paid in lower socio-economic areas is substantially less than the average rates paid in higher socio-economic areas.

There may also be instances where a lower ranked area like Madgwick, which has more than 55% of its population in the 18 to 24 years of age bracket, is in the University precinct and therefore the residents are possibly students attending the University of New England. The results for this area therefore may not be reflective of the people or organisations who own the property they are residing in and may not be disadvantaged by changes in rates due to an SRV.

Equivalised household Income

As noted on page 10 of the Morrison Low report, "equivalised household income can be viewed as an indicator of the economic resources available to a standardised household. It is calculated by dividing total household income by an equivalence factor. Dividing by the equivalence factor, household income becomes comparable to that of a lone individual, thereby making households with dependants and multiple occupants comparable to those without. By factoring in dependants into household incomes, we are provided with a better indicator of the resources available to a household. As this is a relative comparison, data has been presented in quartiles."

Based upon the 2021 equivalised household income data, there are some regions within the LGA that have high proportions of households in the upper brackets or that have the greatest proportion of advantaged households. Overall, the LGA and Regional have similar levels of Equivalised income.

Employment

Armidale Regional Council has relatively high labour force participation and a low unemployment rate. In 2021 a total of 12,763 (94.7%) people living in the area were employed, out of which 54.7% were employed full time, 33.9% part time and 6.1% not stating their status, as per the table below:

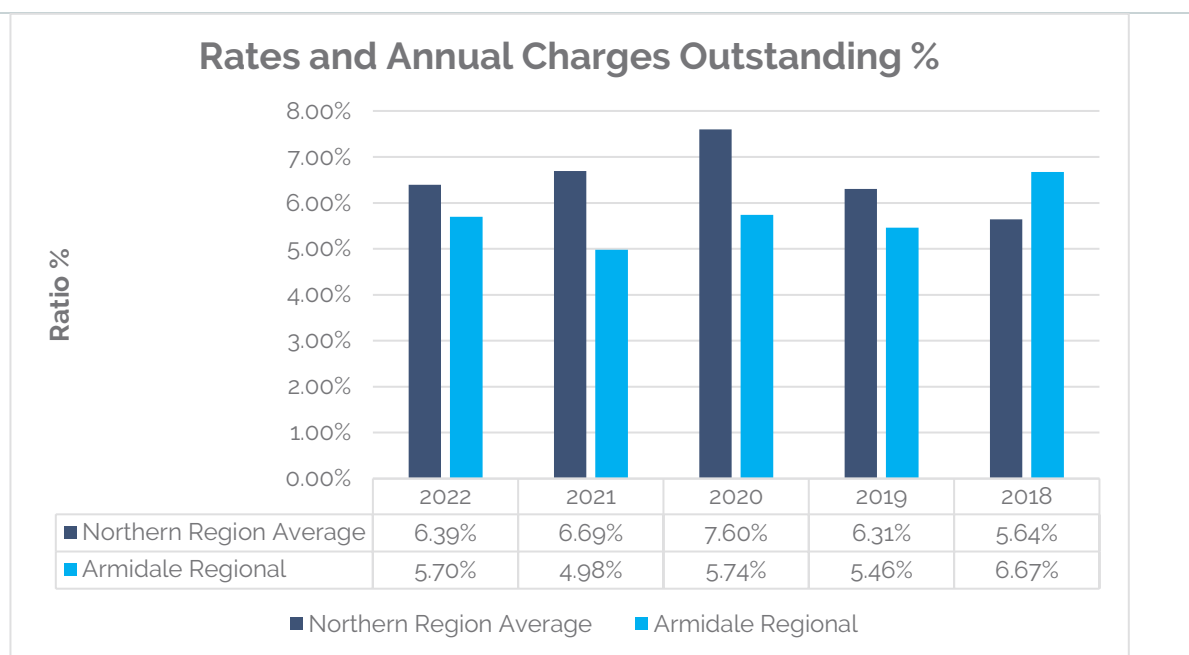
Employment Status	Number	ARC %	Regional NSW %
Employed, worked full-time	7,372	54.7%	54.5%
Employed, worked part-time	4,569	33.9%	33.7%
Employed, status not shown	822	6.1%	7.3%
Unemployed, looking for work	715	5.3%	4.5%
Total Labour Force	13,478	100.0%	100.0%

Outstanding Rates

Evidence of capacity to pay is also demonstrated by a low Rates and Annual Charges Outstanding Ratio for a number of years. The “Rates and Annual Charges Outstanding Ratio” assesses the impact of the percentage of rates and annual charges that are unpaid at the end of the financial year. This is a measure of how well Council is managing debt recovery and how well the community is complying with the rates and charges payment terms. Rates collection has remained stable over the last 5 years and Council has exceeded the benchmark of less than 10% for all of those years. The following table indicates that Council’s outstanding rates and annual charges are less than the average for the Northern Region group. This indicates a relatively low level of financial hardship within the Armidale Regional Council LGA.

As noted in the Morrison Low Report on page 34:

“Armidale Regional has relatively low outstanding rates. This is a strong indicator of willingness and capacity to pay, especially given that the benchmark for outstanding rates is less than 10% for regional and rural areas.”



In Summary

The Morrison Low Report provided some overall observations (page 2) that supported the ability of the community to afford the proposed increase in rates, including the following:

“Although there are pockets of significant wealth and advantage, there is also significant disadvantage. There is a noticeable disparity between the urban and non-urban /rural areas.”

“Reviewing indicators such as household expenditure shows that household net savings have increased to \$25,913 per household in 2020/21 (in line with Regional NSW averages), these increases in net savings indicate a capacity to pay within the community.

Additionally, we also noted that Armidale Regional Council has a relatively low proportion of outstanding rates at 5.0% (2021), a strong indicator of both capacity and willingness to pay rates especially given that the benchmark for outstanding rates is less than 10% for regional and rural areas.”

How does the council intend to address hardship?

Does the council have a hardship policy?

Yes

If yes, is an interest charge applied to late rate payments?

Yes

The response in the text boxes below should explain any measures the council has in place, or intends to introduce, measure for dealing with cases where ratepayers experience hardship in meeting their obligation to pay rates.

Evidence can relate to a formal hardship policy which the council has adopted, and/or processes the council has in place, or intends to implement. The response should explain who the potential beneficiaries are and how they are or will be assisted. Alternatively, the response should explain why no such measures are proposed.

The council should also indicate whether the hardship policy or other measures are referenced in the council's IP&R documents (with relevant page reference or extract provided). Please provide the council's response in the text boxes below.

- a. Explain the measures the council proposes to use to reduce the impact of the proposed SV on vulnerable ratepayers, or alternatively, explain why no measures are proposed.

The measures Council has in place include rate payment assistance and interest relief through Council's hardship policy and the pensioner rebates offered by Council.

Hardship Policy

Council has a hardship policy (included as Attachment Doc 15. ARC Hardship Policy), which was adopted in September 2021.

There is some relief from interest on rates in the deferral clause of the hardship policy. There is also payment arrangements that can be put in place as noted on page 3 of the policy, which is summarised as follows:

"Council recognises that providing options for debtors to keep debt at manageable and affordable levels will assist in minimising financial stress and avoiding costs associated with escalated debt recovery. In cases of hardship, Council will work with customers to put suitable payment arrangements in place."

Council also situationally considers community support. For example, Council put in place an Interim Hardship Policy Coronavirus (COVID-19) – October 2020 in response to the State-imposed lockdowns and public health measures. The number of people accessing hardship arrangements due to Covid-19 was low with only 22 requests were made citing Covid-19 as the reason. Council initially permitted payment deferrals or payment arrangements as hardship provisions for Covid-19. However, as time has passed the policy was amended to allow payment arrangements only as otherwise the rate debt can rise to unmanageable levels and create other problems.

Ratepayers have also made application for hardship consideration for other reasons and generally Council will accept a minimum payment arrangement under the policy. Extreme hardship situations are looked at on an individual basis.

Pensioners

Council currently has 1,606 ratepayers eligible for the pension rebate.

In addition to pension rebate concessions provided by the NSW Government, Council also grants a pension rebate of up to \$25 on ordinary rates, \$25 on annual water charges and \$25 on annual sewerage charges to eligible pensioners.

As outlined previously, where disadvantage in the region exists (for example the township of Guyra and Villages) the rates structure already provides for a differential in the base rate for these areas and the average rates paid in lower socio-economic areas is substantially less than the average rates paid in higher socio-economic areas. As pensioners will also be represented in the disadvantage group, the rates structure provides another mechanism to assist with rating impacts.

Other Measures

Council is aware that there may be residents whom are unwilling to approach Council directly with hardship issues. Council is taking a broader approach and is providing support to local community organisations. These organisations are in touch with those in most need and can make a positive impact when resolving hardship issues. By creating more than one reference point for those experiencing hardship, it is hoped that those who may not contact council for relief can find assistance elsewhere.

ARC provides funding for Armidale Neighbourhood Centre. The level of support provided has increased this year by \$60K to assist this organisation to provide assistance for disadvantaged community members. ARC intends to maintain the higher level of support for this organisation in future years. The 2023-2024 proposed Operational Plan includes additional support for Guyra community groups.

Debt collecting – ARC is reviewing their debt collection methodology. When ARC renews its debt collection contract, ARC will increase the weighting given to agencies that use proactive early intervention methodology, engage with ratepayers before debt issues become unmanageable and have provision to assist with making payment arrangements or providing access to financial counselling if required.

b. Indicate whether the hardship policy or other measures are referenced in the council's IP&R documents (with relevant page reference or extract provided)

Financial hardship is mentioned on page 54 of the Delivery Program adopted in January 2023 – see attachment Doc 1. This wording directs ratepayers to the Hardship Support page on the Council website, which in turn highlights Council's adopted Hardship Policy (see attachment Doc 15.).

“Council recognises that circumstances of financial hardship can arise requiring respect and compassion. In cases of genuine hardship, Council will work with people to put affordable payment plans in place that are generally in line with the existing minimum payment arrangement criteria. For further information please refer to the Hardship Support page on the Council website.”

Table 6 Criterion 3 attachments

Council- assigned number	Name of document	Page references ^a All page numbers refer to the electronic page reference
Doc 5 & Doc 8	ARC Resourcing Strategy 2023-2032, adopted (Doc 5) June 2022 and (Doc 8) January 2023	63-67
Doc 14	Doc 14. ARC Capacity to Pay Armidale Regional Council_ Morrison Low – November 2022	
Doc 15	Doc 15, ARC Hardship Policy	2-3
Doc 1 & Doc 2	Delivery Program 2022-2026 (Doc 1 Nov22 revision, Doc 2 June 2022 version)	53, 54

a. If document only relevant in part.

Has the council considered the impact of the SV in its IP&R documents?

In the table below provide evidence that the council met the reporting requirements of criterion 3 in its delivery program and LTFP.

Table 7 Consideration of the proposed SV impact in IP&R documents

Criteria	Evidence of meeting this criterion from the council's IP&R documents	Reference to IP&R documents All page numbers refer to the electronic page reference
The Delivery program and LTFP should:		
Clearly show the impact of any rises upon the community	Doc 1.ARC Delivery Program 2022-26 – Addendum – pages 46 to 57, particularly pages 53 & 54	Doc 1.ARC Delivery Program 2022-26 – Addendum – pages 46 to 57, particularly pages 53 & 54
Include the council's consideration of the community's capacity and willingness to pay rates	Doc 14. ARC Capacity to Pay Armidale Regional Council Morrison Low – November 2022 Doc 1. ARC Delivery Program 2022-26 – Addendum – pages 46 to 57	Doc 14. ARC Morrison Low – Capacity to Pay Armidale Regional Council Morrison Low – November 2022 Doc 1. ARC Delivery Program 2022-26 – Addendum – pages 46 to 57
Establish that the proposed rate increases are affordable, having regard to the community's capacity to pay	Doc 14. ARC Capacity to Pay Armidale Regional Council Morrison Low – November 2022 Doc 1. ARC Delivery Program 2022-26 – Addendum – pages 46 to 57, particularly pages 53 & 54	Doc 14. ARC Capacity to Pay Armidale Regional Council Morrison Low – November 2022 Doc 1. ARC Delivery Program 2022-26 – Addendum – pages 46 to 57, particularly pages 53 & 54

Note: Reference to IP&R documents should include Application attachment number, document Name, section reference, page reference. For example: Attachment 3, Council LTFP, section 3.2, pp 20-25.

Criterion 4 – Exhibition of IP&R documents

Criterion 4 in the SV Guidelines is:

The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. It is expected that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

The formal requirements applying to IP&R documents are set out in the *Integrated Planning and Reporting Guidelines for Local Government in NSW* and the *Integrated Planning and Reporting Handbook for Local Councils in NSW*.

For the purposes of applying for an SV, councils should note:

- If amendments to an adopted **Delivery Program** or **Community Strategic Plan** are needed to incorporate or update information about the proposed SV, the draft documents should be re-exhibited for a period of 28 days, and adopted before the council submits its Application Form to IPART.
- The exhibition period should be scheduled so that there is an opportunity for the council to formally consider and resolve to adopt the revised documents. It will be expected that a council will hold an extraordinary general meeting, if necessary, to meet this requirement.
- The council should adopt a version of the **LTFP** which incorporates modelling of the proposed SV before the council submitting the application to IPART.
- When applying for a SV for 2023-24 councils do not need to prepare, exhibit or adopt the **Operational Plan for 2023-24**.
- If council has used supporting evidence from the **Operational Plan for 2023-24** to demonstrate how it satisfies other criteria, the council should also provide information about this document in its response to criterion 4.

Where the proposed SV is to fund asset management, the council's **Asset Management Strategy and Plan(s)** should be adopted before submitting the application to IPART.

What IP&R processes did the council use in determining to apply for a special variation?

In the text box indicate the progress of identifying the need for the SV being incorporated into the IP&R documents by providing information about community engagement and when key revisions were made to the IP&R documents.

Council spent considerable time and effort between 2020 and 2022 identifying the need for an SRV and then communicating this to the community. This process has been succinctly summed up on page 47 of the addendum to the Doc 1. ARC Delivery Program 2022 to 2026, adopted in January 2023 as follows:

“In 2020-2021, Armidale Regional Council applied to make a temporary 10% SRV (that applied to the former ADC) permanent through a successful application to IPART. A higher proposal by Council staff was not supported by the former Councillors, and making permanent the existing 10% SRV did not provide any increase in rates, despite increasing asset renewal requirements and inadequate cash reserves. An unsustainable financial position remained, for the most part, unaddressed.

In 2021, during the review and preparation of the Integrated Planning and Reporting documents, Armidale Regional Council sought feedback from the community regarding their aspirations for the future. The feedback from this consultation strongly indicated that the community wanted to see more economic growth, a focus on environmental sustainability, quality leadership and improvements to transport infrastructure.

The new Council has, in response, set a course to grow jobs and investment in the region and is committed to achieving the community's aspirations and restoring confidence in the Local Government Area.

However, in order to achieve these goals, Council has determined that it must address its financial sustainability and manage an increasing back log of asset maintenance in the first instance – we must ‘Restore’ to then ‘Thrive’.

Council is responsible for maintaining and upgrading \$1.459 billion of assets including \$683 million of transport-specific assets (including approximately 651 kilometres of sealed roads, 1,077 kilometres of unsealed roads and 122 kilometres of regional roads). These assets - roads, bridges, stormwater, footpaths, buildings, water, sewer, airport, land, landfills and plant – are critical for the functioning of our region.

Based on the 2021-22 Financial Statements, more than 14.5% of infrastructure assets were in poor or very poor condition. The estimated funding required to raise the condition of assets to a satisfactory level and conduct appropriate maintenance and renewal, is approximately \$111 million.

Council forecast an operating deficit of approximately \$3 million in the General Fund for 2022-2023, despite realising \$12.7 million in efficiency gains and savings over the past five years.

Even with extreme cuts to service levels, reductions in staff, implementation of cost recovery strategies and the sale of identified assets, this shortfall in asset maintenance and renewal, together with the operating deficits, cannot be sufficiently resolved without an increase in rate revenue.

Council considered a number of scenarios when deliberating how to adequately address financial sustainability while also working toward achieving the community's aspirations in the Advancing our Region Community Plan. In the end, Council agreed that a Special Rate Variation was required, and developed its Integrated Planning and reporting documents on this premise.

Council was proactive and transparent in its approach to community engagement. While the Draft Community Plan, Draft Delivery Program, and Draft 2022-2023 Operational Plan and Budget were on public exhibition in May and June 2022, Council utilised the opportunity to begin a conversation with the community about the need for an SRV.

Council held public meetings in both Guyra and Armidale, outlining to the community the rationale behind the proposed 50% SRV as part of a turnaround strategy for the Council. The public was also informed that further consultation about the proposed SRV would be forthcoming.

At the Ordinary Council Meeting of 29 June 2022, Councillors adopted a suite of Integrated Planning and Reporting documents that were based on a proposal for a 50% rate rise (cumulative 58.81%) over three years. This included a plan to conduct community engagement on the proposed rate rise during August and September 2022.”

Following the extensive community engagement undertaken during August and September 2022, Council identified the need to revise the IP&R documentation to make key changes to the LTFFP (reducing the landfill levy over the introduction of the SRV, change the rate peg in 2022-23 to 3.7% and recognising the higher depreciation expense) and provide further information for the community within the Delivery Program. The changes to the DP and Resourcing Strategy were adopted by Council in January 2023.

When did the council meet the formal requirements for all relevant IP&R documents?

The table seeks information which demonstrates that the council has met the formal requirements for the preparation, exhibition, adoption and publication of the current IP&R documents. Please complete Table 8 for all IP&R documents relevant to the council's application.

Table 8 IP&R documents

Document	Exhibition dates	Adoption date	Placed on council's website	Web link
Community strategic plan	11 May to 8 June 2022	29 June 2022	Yes – uploaded by 30 June 2022	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Delivery Program (Doc 2)	11 May to 8 June 2022	29 June 2022	Yes – uploaded by 30 June 2022	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Long Term Financial Plan (Doc 5)	11 May to 8 June 2022	29 June 2022	Yes – uploaded by 30 June 2022	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Asset Management Strategy / Plan(s) (Doc 5)	11 May to 8 June 2022	29 June 2022	Yes – uploaded by 30 June 2022	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Operational Plan	11 May to 8 June 2022	29 June 2022	Yes – uploaded by 30 June 2022	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Delivery Program – Revised (Doc 1)	16 December 2022 to 20 January 2023	30 January 2023	Yes – uploaded 31 January 2023	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Resourcing Strategy – Revised (Doc 8)	16 December 2022 to 20 January 2023	30 January 2023	Yes – uploaded 31 January 2023	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Asset Management Strategy / Plan(s) – Revised (Doc 8)	16 December 2022 to 20 January 2023	30 January 2023	Yes – uploaded 31 January 2023	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Long Term Financial Plan – Revised (Doc 8)	16 December 2022 to 20 January 2023	30 January 2023	Yes – uploaded 31 January 2023	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Revised Asset Management Plans	16 December 2022 to 20 January 2023	30 January 2023	Yes – uploaded 3 February 2023	https://www.armidaleregional.nsw.gov.au/council/council-governance/integrated-planning-and-reporting-ip-r
Other				

What, if any, relevant issues arose in the public exhibition of the IP&R documents?

In the text box explain any issues arising from the council's IP&R processes and documentation associated with the proposed SV which you consider are relevant factors in assessing the council's application, including responses to public exhibition.

This question seeks information about issues that arose in the council's undertaking of its IP&R processes with the community by publicly exhibiting the IP&R documents, which could be relevant for IPART's assessment of the council's application.

All public submissions received during the public exhibition period were presented to the Ordinary Council Meeting (OCM) held on the 29th of June 2022 together with council staff comments and recommendations. There were 59 formal submissions and council made a number of changes to the IP&R documents during, and in response to, the public exhibition process.

Full details of submissions and responses can be found in the attachments report to the OCM attached documents Doc 16. ARC Integrated Planning and Report – Public Submissions and Doc 17 ARC Integrated Planning and Reporting – Submissions Report

No relevant issues were noted that affected the progress towards engaging with the community on a proposed special rate variation.

Due to the need to update various IP&R documents for the SRV application, Council agreed to place all revised documentation on public exhibition from 16 December 2022 to 20 January 2023. As a consequence of this exhibition, a number of submissions were received and details of these are noted below.

All public submissions received during the public exhibition period were presented to the Ordinary Council Meeting held on the 30th of January 2023 together with council staff comments and recommendations. There were 29 formal submissions and council made a number of changes to the IP&R documents during, and in response to, the public exhibition process.

Full details of submissions and responses can be found in the attachments report to the OCM attached documents Doc 18. ARC IP&R – Public Submissions Jan 2023 and Doc 19 ARC IP&R – Submissions Report Jan 2023.

During the submission period, Council received 29 Formal Submissions, an internal ARC submission and five informal submissions.

Of the Formal Submissions:

- Three (3) were detailed submissions related to the Integrated Planning and Reporting documents;
 - Nine (9) were in opposition to the SRV;
 - Six (6) were in opposition to the Rail Trail;
 - Three (3) were in opposition to Rail Trail and SRV;
 - Four (4) were in support of the SRV and/or Integrated Planning and Reporting documents;
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-
- One (1) was in opposition to both the SRV and documents on public exhibition; and
 - Three (3) were 'other' comments or queries.

It is noted that many of the submissions received were based around the SRV itself and support or opposition for the application, rather than the proposed amendments to the IP&R suite of documents. Please note that consultation on the decision to apply for an SRV closed on 30 September 2022. Council resolved to apply for a 50% (58.8% cumulative) SRV over three years at the Ordinary Council Meeting of 23 November 2022. In real terms, consultation on an SRV commenced as early as May 2022 so the opportunity to make submissions specific to the SRV have been plentiful.

Criterion 5 – Productivity improvements and cost containment strategies

Criterion 5 in the SV Guidelines is:

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

Councils should present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures, and indicate if the estimated financial impact of the ongoing efficiency measures has been incorporated in the council's Long Term Financial Plan

This Application Form asks four questions relating to:

1. The approach to improving productivity in operations and asset management.
2. Outcomes realised from productivity improvements and cost containment strategies in past years.
3. Productivity improvements and cost containment strategies planned for future years.
4. Evidence of productivity and efficiency.

Councils can adopt a very broad range of strategies, initiatives or activities to improve the efficiency of their operations and the productivity of their workforce, and to contain costs and increase revenue. They may arise from reviewing service priorities, levels of service, labour and capital inputs, and organisational structures or services to be delivered.

Drawing on our experience in past years, we will be placing an emphasis on councils' applications demonstrating how they satisfy criterion 5. To demonstrate that a council has met this criterion, it is not sufficient to list a series of cost-saving or revenue-raising initiatives. Councils should provide evidence of strategies and activities and robust data quantifying the efficiency gains.

What is the council's strategic approach to improving productivity in its operations and asset management?

The council's response should identify how, as an organisation, it has approached improving productivity in its operations and asset management. It could refer to approaches such as:

- comprehensive strategic-level review of council operations including service priorities, levels of service, labour and capital inputs
- targeted reviews of discrete areas of council operations encompassing all aspects of processes, procedures, procurement, scheduling and equipment use
- reviewing service standards so that the more closely align with community expectations
- organisational restructure
- redesigning processes such as financial reporting, people/performance/project management to achieve efficiencies
- reviewing procurement strategies

- pursuing opportunities for commercialisation and business improvement
- review of assets in order to rationalise and divest property.

Please provide the council's response in the text box below.

Since the merger of Armidale Dumaresq Council and Guyra Shire Council to create Armidale Regional Council on 12 May 2016, Council's strategic approach to improving productivity in its operations and asset management have included several approaches including collaboration, technology, policy change and development, capacity building, organisational restructure and systemic change and integration.

Some examples are noted below:

In November 2016, the Interim Executive Leadership Team (ELT) at the time post-merger established a Transformation Advocacy Team. The purpose of this team was to support the Project Management Office (PMO) to guide the new council through the merger transformation process; to operate as a conduit between the PMO and the organisation; to pass on information regarding PMO activities throughout the organisation; to contribute ideas, information, opinions and staff queries; to meet regularly for discussion about the merger process and feedback on progress.

In March 2019, the ELT introduced the ARC 2022 Transformation Program. The Corporate Strategy of the program was divided into 4 functional areas: 1. Digital Services Transformation, 2. Businesses & Commercial Transformation, 3. Financial Sustainability Transformation, and 4. 21st Century Council People & Culture Transformation.

The Top 10 priorities were:

1. Services Review/Process Mapping
2. Best in Class Procure to Pay
3. Deploy Smart Parking Strategy
4. Airport Options/Strategy
5. Commercial Plant & Fleet
6. Parks Review
7. Customer Services Alignment Review
8. Aquatic Centres Review
9. Special Rate Variation
10. Property Divestment Strategy Phase 2

The potential long term benefits of the Transformation Program were forecast at approximately \$15m.

Priority Support Projects and Other Projects were noted as:

1. Executive Development Program
-

2. Performance Management Framework
3. Technology & Automation Review
4. Administration Review
5. Transformation Communications & Engagement Plan
6. Safety Excellence Program
7. 21st Century Library
8. Preschool Review

The potential long term benefits of the above Support Projects were forecast at approximately \$2.5m.

Council made progress with the above projects until key staff involved in the overall program departed from Council and resourcing the priority projects in addition to daily business-as-usual resourcing became challenging. A change in the ELT placed the overall program on hold during 2020.

Council experienced significant change during 2020 including the suspension of Councillors by the Minister for Local Government in June 2020, the appointment of an Interim Administrator from June to December 2020, departure of CEO in July 2020, appointment of a short-term Acting General Manager in August 2020, appointment of an Acting General Manager from August 2020 to January 2021, return of the Councillors in December 2020 and the appointment of a General Manager in January 2021.

The Acting ELT in 2020 commissioned several reviews including:

1. Review of Council's Governance Practices;
2. Review of Council's Land Management Practices; and
3. Review of Council's Finances.

Recommendations were made in these Reviews and presented to Council. On 9 December 2020, the Minister for Local Government issued Council with a Performance Improvement Order (Doc 30) which required Council to implement the recommendations from the Reviews by 4 September 2021. Included in the recommendations were:

- Council should adopt surplus budgets that ensure financial sustainability over the longer term.
- Council should ensure that the budget approval and monitoring process incorporates detailed information in relation to major capital projects and funding sources.
- Management should establish an appropriate Project Management framework that is best practice, together with a reporting architecture that ensures accountability for budget variances.
- Office of Local Government guidelines pertaining to Capital Expenditure Reviews should be applied to relevant projects.
- Council should ensure that sufficient resources are provided within the organisation to address the above recommendations.

Council committed to implementing all recommendations and was required to do so under the NSW Minister for Local Government's Performance Improvement Order (Doc 30) by 4 September 2021. On 30 August 2021 Council submitted a Final Compliance Report to the Minister. Additional compliance reports were also delivered for the periods to 31 December 2021 and 30 June 2022, both of which were voluntary. Some of the improvements reported were:

- Undertaking policy initiatives including adoption of a framework, developing standard templates and developing/revising new and revoking redundant policies;
- Making improvements to risk management including updating strategies, policies and processes;
- Making improvements to internal audit and the Audit Risk and Improvement Committee;
- Improving statutory reporting and compliance e.g. review of delegations database;
- Improving disclosures of interest by creating central registers;
- Improving the format of council reports;
- Improving the corporate governance framework including conducting departmental business planning;
- Adopting a reserves policy to improve Council's unrestricted cash position;

To provide further reference to Asset Management, Council's strategic approach to making improvements has been:

- To develop an Asset Management Policy which was adopted by Council on 23 June 2021.
- To engage the Advisory and Partnerships Group of Public Works, Department of Regional NSW (PWA) to carry out an Asset Management Maturity Assessment (AMMA) of its Asset Management System (Doc 8). This report was adopted in January 2023
- To appoint PWA to develop a Strategic Asset Management Plan (SAMP) to meet the requirements of the Council's Asset Management Framework (AMF). Although the AMF is still being developed, the SAMP (Doc 8) was adopted in January 2023
- To appoint PWA to help develop revised Asset Management Plans (AMPs) to current industry standards with input and involvement from asset owners. AMP's were developed for the Airport, Buildings, Parks, Transport, Waste and Stormwater, (Doc 8) all of which were adopted by Council in January 2023 (see hyperlink in Table 8).

Council Culture and Employees

- As part of the ongoing review of our organisational efficiencies and service delivery, Council undertook an organisational structure review acknowledging that the previous structure did not meet the future requirements of the Council and the expectations of the community. The implementation of the new organisational structure was finalised in October 2022 which is now fit for purpose and which allows Council to balance competing demands and therefore deliver the community's vision as efficiently as we can.
- A back-to-basics turnaround strategy driven by the General Manager in collaboration with all staff and Councillors is a key focus for Council as the organisation sets a path to 'Restore and Thrive'.

A significant step in Council's roadmap to 'restore and thrive' has been to address the poor culture within the organisation. A 'culture audit' with a 90 percent staff (and Councillors) participation rate in the audit debrief was conducted by the Dattner Group. In summary the challenges identified by staff and councillors included financial constraints, the organisational structure, leadership instability, poor community reputation, lack of staff and high turnover, lack of strategic direction, low morale and lack of unity.

The audit also highlighted some key strengths of the organisation including good people passionate about serving the community and the potential and current improvements already seeing positive change. A team made up of leaders from all levels of the organisation and referenced as OPARC (Operation: Planet ARC) developed a draft turnaround strategy and roadmap as part of the back to basics approach that focuses on vision, purpose, values, supporting and unsupportive behaviours, as part of a focused strategy.

The final endorsed OPARC Strategy Map and Values and Behaviours document was built on feedback from all staff and Councillors through a World Cafe event. These documents, are now the centrepiece by which Council staff hold each other to account over the nominated timeframe for our 'Turnaround Strategy'.

Through a positive organisational culture, Council aims to be an employer of choice, attracting high quality candidates and reducing turnover of staff, leading to an engaged and well-suited workforce, increases in productivity and reduced recruitment process costs. A recent restructure was based on having the right people in the right positions to ensure less turnover and greater productivity.

- Council has also had a strong focus on a safety and wellbeing culture that reduces lost time through absenteeism, injury or plant damage. Safety and wellbeing is the utmost priority for the organisation, including getting staff home safely each day, but also brings efficiency and cost benefits, including reducing Workers Compensation Premiums.

As noted in the revised Delivery Program (Doc 1), on pages 55-56, Council has also implemented, or is planning to undertake the following productivity improvements:

Better Asset Management

ARC is currently rebuilding and addressing key gaps in its Asset Management Framework. Training and development of staff to ensure appropriately skilled staff are able to successfully perform strategic asset management functions as well as process and software improvements are being implemented to ensure quality data is being efficiently used.

A significant improvement is being made through the integration of infrastructure and finance functions which will reduce double handling of asset data, reduce errors and allow for better prioritisation of works.

- Conduct and implement asset condition assessments and data improvement for more efficient financial management and improved understanding of asset performance and to provide forward works plans for inclusion in future budgets
- Road reclassifications to transfer management to state government
- Activation and maximising the utilisation of assets e.g. quarries
- Building relationships with new business partners such as Fire and Rescue NSW to utilise our assets

Improved Customer Service

- Deliver a program of service planning across the organisation to understand customer experience, services challenges, future trends and service levels. It is expected that a service planning and review schedule will be developed which will identify the Council service to undergo in-depth service planning and review. Services will be selected using a risk management and impact maximisation matrix and prioritised accordingly.
- Review the community engagement website for usability, cost efficiency and integration
- Prepare a plan for the development and delivery of service reviews, including order of review for each department and mode of delivery

More Efficient Systems and Processes

- Workforce changes have been undertaken to align service areas with common skill sets and ensure that technical areas with large operational impact are adequately but efficiently resourced. Areas requiring specialist technical support such as Waste Management and Transport Operations have been separated to allow dedicated focus appropriate for high risk specialties.
- Reduction of the deficits incurred by the Kolora aged care facility in Guyra
- Review and improve cemetery booking and management system
- Finalise the automation of Ebor Waste Transfer Station
- Reduced time for order and payment processing of electricity accounts, along with reduced electricity costs from LED street lighting.
- Introduce an online rates and e-invoicing system
- New staff human resources system including online timesheets

- Implementation of GPS monitoring to monitor plant utilisation and efficiency
- Council will roll out a program of Service Reviews beginning 2023-2024. At least two services will be reviewed per year. The preparation for this program is currently underway, with all services undertaking a Service Planning program in 2022-2023 to complete service plans across the organisation and gather the necessary information to inform the upcoming Service Reviews.

Finding Cost Savings

- Savings in Councillor fees and expenses
- Reduction in employee costs
- Review waste, water and sewer charges and reserve provisions
- Implement Stage 2 of the Property Working Group
- Saving on travel booking fees and staff time
- Savings on property, plant & equipment (PPE) purchases
- Lower insurance premium pricing due to Council merger (2016–2019)
- Savings on environmental monitoring cost

Completing a Property Review

ARC is currently reviewing its land and property portfolio for any opportunities to reduce overheads, increase value and extend lifecycle through improved asset management.

A number of opportunities exist to develop lands that are considered non-productive such as old road reserves or vacant blocks. Currently Council has identified four excess road reserve lots which are to be placed into a public process to start the conversion to operational lands and eventually residential lots. Future programs will:

- Form a property and lands strategy to guide future asset priorities for the community and council.
- Focus on long-term asset renewal through funding and partnerships with investment groups (local, regional, state and federal)
- Provide an investment fund for future grant and sponsor opportunity of key assets and projects.

Should Council's current application for the SV not be successful, the impact on Council will be significant. To be able to implement the required recommendations, service levels will need to be reduced and Council's ancillary services to the community will need to be scaled back to only those required under the legislation.

What outcomes has the council achieved from productivity improvements and cost containment strategies in past years?

In responding to the questions that address this point, wherever possible the council should:

- provide information about productivity improvements and cost containment strategies implemented during at least the past two years
- quantify in dollar terms the gains past initiatives have realised
- present these gains as a percentage of operating expenditure.

You may in this question provide evidence of overall improvements in the council's financial situation from productivity and operational improvements and provide specific examples of initiatives or activities such as:

- introducing environmental and energy efficiency initiatives
- adopting more efficient information and communications technology for a range of activities such as communications, document processing, financial transactions, outdoor staff operations, e-recruitment
- shared purchasing through joint organisations of councils
- improved management of workers compensation insurance claims and safety audit
- seeking private contract works for road maintenance
- contracting to provide services to other councils
- reviewing community venue management to increase the utilisation of venues and associated revenues
- reviewing charges to ensure greater cost-recovery for council-provided services
- review of and refinancing loan borrowings
- adopting waste management strategies to reduce landfill waste and associated costs.

Please provide the council's responses to the questions in in the text boxes below.

a) Explain initiatives undertaken in the past few years to improve productivity and contain costs.

Some of the initiatives undertaken by Council in the past few years to improve productivity and contain costs are:

1. Reduction in Councillor numbers from 16 to 11 in 2016/17. As a consequence of the affirmative outcome of the Constitutional Referendum on councillor numbers at the September 2021 elections, Council will again reduce its councillor numbers from eleven to nine at the next local government elections.
2. Council transferred operational responsibility of the Kolora Aged Care facility to a third party provider of aged care services.
3. Investment in parking technology to enable a higher incidence of parking infringements to be issued within available resources resulting in additional possible income
4. Introduction of paid parking at the Armidale Regional Airport

-
5. Some progression of land divestment strategy and disposal of surplus land
 6. Holding the recruitment of some positions and managing the vacancy factor
 7. Transformation Program 2022
 8. Travel contract arrangements – saving on booking fees and staff time
 9. Implementation of Flexipurchase credit card system that translated to time savings for staff processing payments
 10. Property, plant & equipment (PPE) contract arrangements, savings on PPE purchases
 11. Review of insurance arrangements to lower premiums due to merger of Councils
 12. Electricity account consolidation and introduction of LED Street lighting
 13. Environmental Monitoring contract arrangements.
 14. Exiting of Contracts for service provision not value for money or of high risk to Council
-

b. Outline the outcomes which have been achieved.

The outcomes that have been achieved include:

1. Savings in Councillor fees and expenses
 2. Reduction of the deficits incurred by the Kolora aged care facility
 3. Increased income from parking fines (targets were not achieved during the Covid19 pandemic, while the technology and infrastructure is in place)
 4. Increased income from parking fees at the Armidale Regional Airport (targets were not achieved during the Covid19 pandemic, while the technology and infrastructure is in place)
 5. Disposal of surplus land with funds redirected into improving the overall cash position of Council by replacing funding from rates in the budget. Review of land holding will continue in future years.
 6. Reduction in employee costs and overhead costs
 7. Saving on travel booking fees and staff time
 8. Savings on property, plant & equipment (PPE) purchases
 9. Lower insurance premium pricing due to Council merger
 10. Reduced time for order and payment processing of electricity accounts, along with reduced electricity usage & costs from LED street lighting and installation of solar systems.
 11. Savings on environmental monitoring costs
-

c. Where possible, quantify the gains these past initiatives have realised.

The above initiatives have provided Council with approximately \$12.7 million in savings to date, with approximately \$1.1 million in annual ongoing savings.

What productivity improvements and cost containment strategies are planned for future years?

The council should provide information that details initiatives planned for the next two years when requesting a one-year section 508(2) SV, or to match the duration of the proposed SV.

The response should, wherever possible:

- estimate the financial impact of strategies intended to be implemented in the future
- present these as a percentage of operating expenditure
- indicate whether the proposed initiatives have been factored into the council's Long Term Financial Plan.

In the text boxes below:

a. Explain the initiatives which the council intends to implement.

Council will continue to implement productivity improvements and cost containment strategies as outlined previously on criterion 5.

As noted in the revised Delivery Program (Doc 1), on pages 55-56, Council is planning to undertake productivity improvements.

Planned improvements include but are not limited to:

Better Asset Management

- Conduct and implement asset condition assessments and data improvement for more efficient financial management and improved understanding of asset performance and to provide forward works plans for inclusion in future budgets
- Road reclassifications to transfer management to state government
- Activation and maximising the utilisation of assets e.g. quarries
- Building relationships with new business partners such as Fire and Rescue NSW to utilise our assets

Improved Customer Service

- Deliver a program of service planning across the organisation to understand customer experience, services challenges, future trends and service levels. It is expected that a service planning and review schedule will be developed which will identify the Council service to undergo in-depth service planning and review. Services will be selected using a risk management and impact maximisation matrix and prioritised accordingly.
- Review the community engagement website for usability, cost efficiency and integration
- Prepare a plan for the development and delivery of service reviews, including order of review for each department and mode of delivery

More Efficient Systems and Processes

- Review and improve the cemetery booking and management system
- Introduce an online rates and e-invoicing system
- New staff human resources system including online timesheets
- Council will roll out a program of Service Reviews beginning 2023-2024. At least two services will be reviewed per year. The preparation for this program is currently underway, with all services undertaking a Service Planning program in 2022-2023 to complete service plans across the organisation and gather the necessary information to inform the upcoming Service Reviews.

Finding Cost Savings

- Additional savings in Councillor fees and expenses (reducing numbers from 11 to 9)
- Reduction in employee costs
- Review waste, water and sewer charges and reserve provisions
- Implement Stage 2 of the Property Working Group
- Saving on travel booking fees and staff time
- Savings on property, plant & equipment (PPE) purchases
- Savings on environmental monitoring cost
- Savings on contract costs for services no longer provided externally
- Utilisation of Council produced materials from quarries
- Continuing review of Council energy usage and adopting identified methods to reduce consumption and use renewables, Council's Renewable Energy Action Plan.
- Increase cost recovery within commercial enterprises which are strategically and socially important have operating within our region like the Armidale Airport and Guyra Preschool
- Implement recommendations from service reviews and internal audit initiatives e.g. overtime and credit card and fuel card review

Completing a Property Review

ARC is currently reviewing its land and property portfolio for any opportunities to reduce overheads, increase value and extend lifecycle through improved asset management.

A number of opportunities exist to develop lands that are considered non-productive such as old road reserves or vacant blocks. Currently Council has identified four excess road reserve lots which are to be placed into a public process to start the conversion to operational lands and eventually residential lots. Future programs will:

- Form a property and lands strategy to guide future asset priorities for the community and council.
- Focus on long-term asset renewal through funding and partnerships with investment groups (local, regional, state and federal)
- Provide an investment fund for future grant and sponsor opportunity of key assets and projects.

Although no specific costings have been undertaken for the above initiatives, it is expected they will form part of the efficiency improvements of \$1 million that council anticipates will be achieved over the first three years of the LTFP. This amount has been included within the SRV Scenario in the LTFP.

b. Estimate their financial impact.

Council estimates that there will be savings of \$1 million by the end of the third year of the introduction of the SRV.

c. Indicate whether these have been incorporated in the council's Long Term Financial Plan.

The LTFP includes the estimated savings of \$1 million by the end of the 2025-26 financial year.

How have the council's levels of productivity and efficiency changed over time, and compare with those of similar councils?

To demonstrate how efficiency has changed over time, councils could use data based on studies of the council itself, or measures against the performance of comparable councils, and also rely on comparative data produced by OLG data such as:

- number of full-time employees (FTE)
- ratio of FTE to population
- average cost per FTE
- employee and on-costs as percentage of ordinary expenditure

- consultancy/contractor expenses over time.

In the text box summarise data which demonstrates how the council has improved productivity and indicate its performance against that of comparable councils.

Some measures of council's productivity and efficiency over time and a comparison with those of similar/nearby Councils is provided in the tables below. Council and Management are aware further improvement is required to improve sustainability.

The results of Council's initiatives to improve productivity are varied as outlined in the tables below. Council has met 5 out of 6 of the Performance ratio benchmarks over the past 3 years (met 6 out of 6 in 2020 and 2021). However, as mentioned elsewhere in this report, these ratios mask the performance of the General Fund when the Waste Management and Waste Services divisions are excluded.

OLG Performance ratios (Consolidated Fund):

<div>Blue indicates the target is met.</div> <div>Red indicates the target is not met.</div>		Armidale Regional			Northern Region Councils *	Population s < 70,000*	NSW State Average *
		2022	2021	2020	2021	2021	2021
Year ended 30 June:		Target					
Financial Ratios - Consolidated							
Operating Performance Ratio	>0%	8.04%	6.93%	1.00%	0.47%	-0.63%	-1.66%
Own Source Operating Revenue Ratio	>60%	66.92 %	68.47 %	58.56 %	58.65%	63.69%	68.32%
Unrestricted Current Ratio	>1.5x	2.27	2.41	2.64	2.57	2.47	3.05
Debt Service Cover Ratio	>2x	6.7	6.11	4.08	5.43	4.32	4.33
Rates and Annual Charges Outstanding Ratio	<10%	5.07%	4.98%	5.74%	6.86%	6.69%	5.84%
Cash Expense Cover Ratio	>3 mths	18.96	15.5	13.91	14.25	14.12	13.27
Infrastructure Ratios		Target					
Building and Infrastructure Renewals Ratio	>=100 %	89.55 %	26.31 %	17.81 %	93.11%	79.38%	96.86%
Infrastructure Backlog Ratio	<2%	11.73 %	1.77%	1.73%	2.52%	4.47%	3.16%
Asset Maintenance Ratio	>100%	81.30 %	72.10 %	88.54 %	91.06%	89.51%	97.85%

Cost to Bring Assets to Agreed Service Level	22.02 %	5.74%	6.11%	2.87%	3.53%	2.46%
* Weighted average						

Source: Council's audited financial statements, LG Solutions Analyser Portal information

Whilst Council has performed mostly in line with each of the comparatives Operating Performance Measures, it has not performed well in the Infrastructure Asset Performance indicators. One of the major reasons in applying for this SRV is to address the shortfall in asset renewals, maintenance and infrastructure backlog, which now exceeds 11%.

Operating expenses:

In relation to employees and employee costs, both the number of Full time equivalents (FTE's) and the overall cost as a percent of operating expenditure have remained relatively constant over the last three years and well below comparative councils.

Employees and employee costs:

	Armidale Regional			Northern Region Councils	Population < 70,000	NSW State Average
	2022	2021	2020	2021	2021	2021
Employee costs	26,309	24,549	23,750	16,776	33,453	37,667
Total Operating Expenditure	83,678	78,889	76,402	50,050	103,343	104,284
Employee costs as % of Total Op Ex	31.44%	31.12%	31.09%	33.52%	32.37%	36.12%
Employee FTE's	278	269	272	161	213	219

Source: Council's audited financial statements, LG Solutions Analyser Portal information

The tables below compare the population of Armidale and the number of full time equivalent employees employed by Council with several other Councils. The first table shows Councils in the NSW Northern Region and the second table shows Councils with populations < 70,000. It should be noted in the comparisons below that not all councils are responsible for the provision of water and sewerage services as Armidale Regional Council is.

Employees and Populations (comparison with other Northern NSW Region and similar populations):

Northern NSW Region			
Council	Population	FTE	Pop'n per FTE
Armidale Regional	29,704	269	110.4
Glen Innes Severn	8,873	146	60.8
Gunnedah	12,690	199	63.8
Gwydir	5,299	175	30.3
Inverell	17,780	204	87.2

Liverpool Plains	7,853	115	68.3
Moree Plains	13,077	227	57.6
Narrabri	13,049	172	75.9
Tamworth Regional	62,545	560	111.7
Tenterfield	6,470	112	57.8
Uralla	5,944	131	45.4
Walcha	3,105	82	37.9
Similar Population Councils			
Council			
Armidale Regional	29,704	269	110.4
Bathurst Regional	43,996	398	110.5
Bega Valley	34,727	345	100.7
Clarence Valley	51,730	472	109.6
Dubbo Regional	54,044	492	109.8
Goulburn Mulwaree	31,554	302	104.5
Kempsey	29,921	318	94.1
Lismore	43,667	423	103.2
Lithgow	21,516	202	106.5
Mid-Western Regional	25,367	394	64.4

Source: Office of Local Government Time Series Data 2020/2021

Table 9 Criterion 5 attachments

Council- assigned number	Name of document	Page references ^a
		All page numbers refer to the electronic page reference
Doc 1	Doc 1. ARC Delivery Program with Addendum – Adopted January 2023	Pages 55-56
Doc 7	Doc 7.ARC Annual Financial Statements – Year Ended 30 June 2022	Pages 73-87, Report on infrastructure assets pages 9-11

a. If document only relevant in part.

Criterion 6 – Other relevant matters

Criterion 6 in the SV Guidelines is:

Any other matter that IPART considers relevant.

The Guidelines provide further that we will assess each application based on its merits against the assessment criteria. In doing so, the following may be considered:

- size of the council
- resources of a council
- size (both actual \$ and %) of increase requested
- current rate levels and previous rate rises
- purpose of the SV
- compliance with this or any other applicable guideline
- compliance with the conditions of any previous SVs, and
- any other matter considered relevant in the assessment of a SV application.

In assessing applications for SVs for 2023-24, IPART will continue its approach of assessing each of the five criteria, then making an overall assessment taking into account these other relevant factors.

The council should only respond to this question if it wishes to provide information in addition to that provided elsewhere in the Application which it would like IPART to consider when assessing its proposed SV. It is not necessary to specifically deal with several of the factors listed in OLG's Guidelines such as the size of increase requested, current rate levels and previous rate rises, and purpose of the SV.

The response may refer to any other matters the council considers relevant to IPART's deliberations. In the text box the council may provide information in addition to that provided elsewhere in the Application Form which it would like us to consider when assessing its proposed SV.

Council has experienced several other significant issues that are considered relevant for IPART's consideration of Council's application. Each of the items are outlined below:

1. Landfill Rehabilitation increased to \$14.3 million, no cash reserve
2. Cost Shifting from Other Government Departments
3. Impact of Natural Disasters
4. Whole of Life costs from Grant Funding
5. Population Growth Impacts

Landfill Rehabilitation increase to \$14.3 million, inadequate cash reserve

- Council has inherited significant landfill rehabilitation liabilities from the former councils with no cash reserves to undertake the required rehabilitation work.

- As noted in the Finch Consulting Report on Council's Finances (Doc 21- page 2), Council's cash reserves since merger have also significantly reduced leaving few options available to Council to address increased costs, other than increasing fees and charges to ratepayers where possible.
- In FY2020, Council undertook to have an external consultant prepare a landfill rehabilitation model that provided an estimate of landfill rehabilitation costs totalling \$23.6 million. This estimate represented a \$19.8 million increase on previous internal estimates, subsequently reduced to \$14.3 million in FY 2022, and is due to several factors: additional rehabilitation required for the closed Guyra site (inherited from Guyra Shire Council with no rehabilitation reserve); provisional rehabilitation for a newly commenced site (Waterfall Way Regional Landfill) and an underlying increase in rehabilitation material costs at the Armidale Long Swamp Road Landfill, which is transitioning from a landfill site to a waste transfer and processing station. The estimate of \$14.3 million highlights the need for Council to accumulate cash reserves for the purpose of funding these increased liabilities.
- Currently the only waste reserve that exists to assist with funding these liabilities is the Waste Management, Landfill & Quarry Rehabilitation reserve with a balance of \$2.966 million as at 30 June 2022.

Cost Shifting from other Government Departments

- Like all other Local Councils, Armidale Regional Council has experienced significant shifting of costs from other Government Departments over recent years.
- One example is the increase in the Emergency Services Levy over the past 2 years. The gross increase in the levy, which is paid to the NSW Government, is approximately \$460,000, Council's net increase over the past 2 years is approximately \$300,000. While the NSW Government has provided a rebate for the increase over the past 2 years, going forward this item is a permanent addition to Council's budget without any offsetting source of funding.
- A further example is the devolution of Crown Land parcels to Council's care and control without any funding for the ongoing management and maintenance of these areas.

Impact of Natural Disasters

- Council has been impacted by the following recent Declared Natural Disaster Events:

NSW Storms and Floods: 15 January 2020 onwards (Code: AGRN898) – this storm and flood event primarily impacted the Kempsey Road and Big Hill areas, after the vegetation of these areas were already impacted by bushfires only several months earlier.

NSW Storms and Floods: 20 October 2020 onwards (Code: AGRN936) and NSW Storms and Floods: 10 December 2020 onwards (Code: AGRN943), 10 March 2021 onwards (Code: AGRN960), Armidale Storm/Tornado from 14 October 2021 onwards (Code: AGRN979), NSW Severe Weather and Flooding from 22 February 2022 onwards (Code: AGRN1012) – these weather events further impacted several areas of Armidale's Local Government Area including Kempsey Road and Big Hill areas, after rehabilitation work had been performed. Some of completed rehabilitation work was washed away during both events.

- Along with financial resources, natural disasters absorb staff resources and impact upon Council's delivery program, resulting in deferral of priority projects.

-
- For each natural disaster, Council incurred costs for Emergency Works and Immediate Reconstruction Works to remove fallen trees, damaged vegetation and other debris from roads; to repair and replace damaged assets and ensure the safety and convenience of residents and visitors.
 - Over the past 3 years, Council has incurred over \$23.1 million in costs associated with the above natural disaster events. Due to the requirements of the Government's Disaster Recovery Funding model, Council has had to absorb \$0.5 million of these costs. At the time of this report, Council has only been reimbursed \$15.2 million by the relevant Government departments, leaving \$7.4 million yet to be received. With the recent increase in interest rates, this delay in payment by the Government departments has an opportunity cost to Council.
 - In addition, as a result of the damage sustained to Kempsey Road from the above Natural Disaster Events, for the years ended 30 June 2020, 2021 and 2022, Council recorded impairment losses totalling of \$5.7 million against the Road and Infrastructure assets in the respective financial statements.

Whole of Life costs from Grant Funding

- NSW State Government and Commonwealth Grants provide an important source of funding for Council, however many grants are provided for the purpose of creating new assets. While new assets are attractive, the downside is they negatively impact Council by growing Council's operational costs without an equivalent source of revenue.
- New assets are required to be maintained and repaired when necessary and they depreciate over their useful life. At the end of their useful life, Council must consider the cost-benefit analysis of replacing the item which requires budget and forward capital planning. New assets add to Council's asset base and cost base and spreads an already thin maintenance budget over additional assets. This has an unfavourable impact on Council's sustainability.
- Many grants require a co-contribution or at least a level of what is often referred to as 'in kind' support; however, no level of support is without a consequence on the Council. Deferring existing resources to support grants is resulting in the inability to progress important priorities of Council such as maturing the asset management framework and implementing productivity and efficiency programs.
- In addition, Grants take a considerable amount of time to research, collate the necessary data, prepare and lodge. Grant writing is sometimes outsourced at additional cost to Council, while in most cases internal resources are required. This detracts from Council's primary focus to deliver existing services and focus on existing priority projects.

General Fund Excluding Waste Activities

The General Fund performance over many years has been being artificially overstated by the landfill levy which raises revenue (posted to the Income Statement) but is used to pay down debt for construction and ongoing works at the new landfill on Waterfall Way of circa \$2M per annum (posted to the Statement of Financial Position).

As noted earlier in this Application, as part of the community consultation, Council agreed to reduce this levy on a staged basis over the same three year period that the SRV was introduced. This decision reduces the surplus in the General Fund by over \$18.5 million over the final nine years of the LTFP. If the Landfill Levy had not been raised in prior years, the Operating Performance of the General Fund would have been reduced by approximately \$2 million per annum.

Reporting requirements SV compliance

In the text box propose SV compliance requirements in addition to those in the IP&R documentation that the council feels are appropriate for this application (if relevant).

If Council's application for a proposed SV is successful it will issue a media release and include relevant information in community messaging (e.g. rates brochure) outlining that it intends to undertake the following SV compliance actions in addition to the requirement to provide information in Council's annual report:

- Budgeting and asset planning processes will incorporate the SV requirement as a key priority
- Annual consultation on the Operational Plan and Budget will incorporate information on what specific projects are being delivered with the SV
- Council's Operational Plan will include two new key reporting areas;
 1. Reporting on improved operating performance as a consequence of the SV; and
 2. Reporting on Council's renewal program.

A cash reserve would also be established to record the value of the SV and account for outgoing expenditure; this will then be included in end of financial year audit processes and reporting.

Table 10 Criterion 6 attachments

Council- assigned number	Name of document	Page references ^a All page numbers refer to the electronic page reference
Doc 21	Doc 21. Review of Council Finances Report Finch Consulting	Page 2

a. If document is only relevant in part.

Council certification and contact information

Councils must submit a declaration in the specified form. It should be completed by the General Manager and the Responsible Accounting Officer.

Certification of application

Prepare a document in the form indicated below, sign, scan and attach as a public supporting document.

Application for a Special Rate Variation

To be completed by General Manager and Responsible Accounting Office

Name of council:

Armidale Regional Council

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

General Manager (name):

James Roncon

Signature and Date:

03/02/2023

Responsible Accounting Officer (name):

Ann Newsome

Signature and Date:

03/02/2023

Note: These signatures will be redacted before publication of the application.

Council contact information

IPART's formal contact with the council will be with the General Manager.

During the assessment period, IPART officers are likely to contact the council with detailed queries about the application and supporting documents. Councils should provide details of the primary contact for such inquiries where this person is a council officer who is not the General Manager. Council officer contact details will be redacted before publication of this application.

General Manager

General Manager contact phone

[REDACTED]

General Manager contact email

[REDACTED]

Note: These contact details will be redacted before publication of the application.

Primary council contact

Council contact phone

[REDACTED]

Council contact email

[REDACTED]

Council email for inquiries about the SV application

[REDACTED]

Note: These contact details will be redacted before publication of the application.

Secondary council contact

Council contact phone

[REDACTED]

[REDACTED]

[REDACTED]

Council email for inquiries about the SV application

S [REDACTED]

Note: These contact details will be redacted before publication of the application.

List of attachments

To complete (adding rows as necessary):

- Assign an identifying number and/or letter to each document.
- Name each document.
- Check the box to indicate that it is being submitted with the application.

List of attachments to the council's application

Council- assigned number	Name of attachment	Is the document included in the application as submitted?
Mandatory forms/attachments		
	Application Form Part A (Excel spreadsheet)	<input checked="" type="checkbox"/>
	Application Form Part B (this Word document)	<input checked="" type="checkbox"/>
	Council resolution to apply for the for the minimum rate increase variation	<input checked="" type="checkbox"/>
Doc 38	Doc 38. Certification	<input checked="" type="checkbox"/>
If applicable for Description and Context Question 4		
	Instrument for expiring special variation	<input type="checkbox"/>
	OLG advice confirming calculation of amount to be removed from the council's general income	<input type="checkbox"/>
If applicable for Description and Context Questions 5 and 6		
Doc 32	Doc 32. Declaration of compliance with conditions in past instruments (if applicable)	<input checked="" type="checkbox"/>
Doc 31	Doc 31. Relevant instrument(s) for past special variations (if applicable)	<input checked="" type="checkbox"/>
Doc 36	Doc 36. Evidence of compliance with conditions in past instruments (if applicable)	<input checked="" type="checkbox"/>
Mandatory public supporting material (i.e. to be published on IPART's website)		
Doc 37	Doc 37. Community Strategic Plan – Relevant extracts	<input checked="" type="checkbox"/>
Doc 1 (Jan 2023)	Delivery Program – Relevant extracts	<input checked="" type="checkbox"/>
Doc 2 (June 2022)	Doc 1. ARC Delivery Program 2022-2026 with Addendum (DPwA)	
	Doc 2. ARC Delivery Program 2022-2026 – June 2022	
Doc 22 (June 2022)	Long Term Financial Plan with projected (General Fund) financial statements (Income, Cash Flow and Financial Position) in Excel format	<input checked="" type="checkbox"/>
Doc 23 (Jan 2023)	Doc 22 (June 2022) Long Term Financial Plan in Excel	
	Doc 23 (Jan 2023) Long Term Financial Plan in Excel	
	Consultation material, e.g. copies of media releases, notices of public meetings, newspaper articles, fact sheets used to consult on rate increase and proposed special variation	<input checked="" type="checkbox"/>
Doc 11	Doc 11. ARC SRV Community Meetings Power Point Presentation	
Doc 13	Doc 13. ARC Media Release Aug 2022 Proposed Special Rate Variation	
Doc 24- 29	Doc 24-29 Letters to the Community	
Doc 33	Doc 33. Print & Social Media	

Council-assigned number	Name of attachment	Is the document included in the application as submitted?
Doc 9	Doc 9. Attachment 1 from page 15	
Doc 3	Community feedback (including surveys and results if applicable)	<input checked="" type="checkbox"/>
Doc 4	Doc 3. ARC Shape Your Region Community Plan 2022-2023 Engagement Summary	
Doc 6	Doc 4. ARC Community Satisfaction Survey Jan 2022	
Doc 9	Doc 6. ARC Special Rate Variation Survey Analysis	
Doc 10	Doc 9. ARC Community Engagement Report – Final	
Doc 16	Doc 10. ARC SRV Submissions from Community Consultation – Combined 2022	
Doc 17	Doc 16. ARC Integrated Planning & Reporting, Public Submissions June 2022	
Doc 18	Doc 17. ARC Integrated Planning & Reporting, Submissions Report June 2022	
Doc 19	Doc 18. ARC IP & R Redacted Submissions – Jan 2023	
	Doc 19. ARC IP&R Public Submissions – Summary Jan 2023	
Doc 14	Willingness to pay study (if applicable)	<input checked="" type="checkbox"/>
	Doc 14. ARC Capacity to Pay Report Morrison Lowe	
Doc 15	Hardship Policy	<input checked="" type="checkbox"/>
	Doc 15. ARC Hardship Policy	
Other public supporting material		
Doc 5 (June 2022)	Asset Management Strategy / Plan(s) (if applicable)	<input checked="" type="checkbox"/>
Doc 8 (Jan 2023)	Doc 5. ARC Resourcing Strategy Adopted June 2022	
	Doc 8. ARC Resourcing Strategy Adopted Jan 2023	
	Operational Plan for 2021-22 (i.e. not for 2022-23) (if applicable)	<input type="checkbox"/>
	NSW Treasury Corporation report on financial sustainability (if applicable)	<input type="checkbox"/>
Doc 21	Doc 21. Review of Council Finances Report Finch Consulting	
Doc 7	Doc 7. ARC Annual Financial Statements 2022	
Confidential supporting material (i.e. not to be published on IPART's website)		

Important information

Submitting online

Applications must be submitted through the Council portal by close of business on Friday, 3 February 2023.

- A file size limit of 10MB applies to the Part B Application Form.
- For supporting documents (Attachments) a file size limit of 400MB applies to public documents, and another 200MB to confidential documents.

Confidential content

We will publish all applications (excluding confidential content) on our website. Examples of confidential content are those parts of a document which disclose the personal identity or other personal information pertaining to a member of the public, a document such as a council working document that does not have formal status, or document which includes commercial-in-confidence content.

Councils should ensure supporting documents are redacted to remove confidential content where possible, or clearly marked as CONFIDENTIAL.

Publishing the council's application

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