Dungog Shire Council
Resourcing Strategy
2018 - 2022

ADDENDUM TO DELIVERY PROGRAM

Adopted by Council 19 December 2018
Adopted by Council as Addendum to Delivery Program 7 February 2019

The Dungog Shire Local Government Area - Demographic Snapshot

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

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

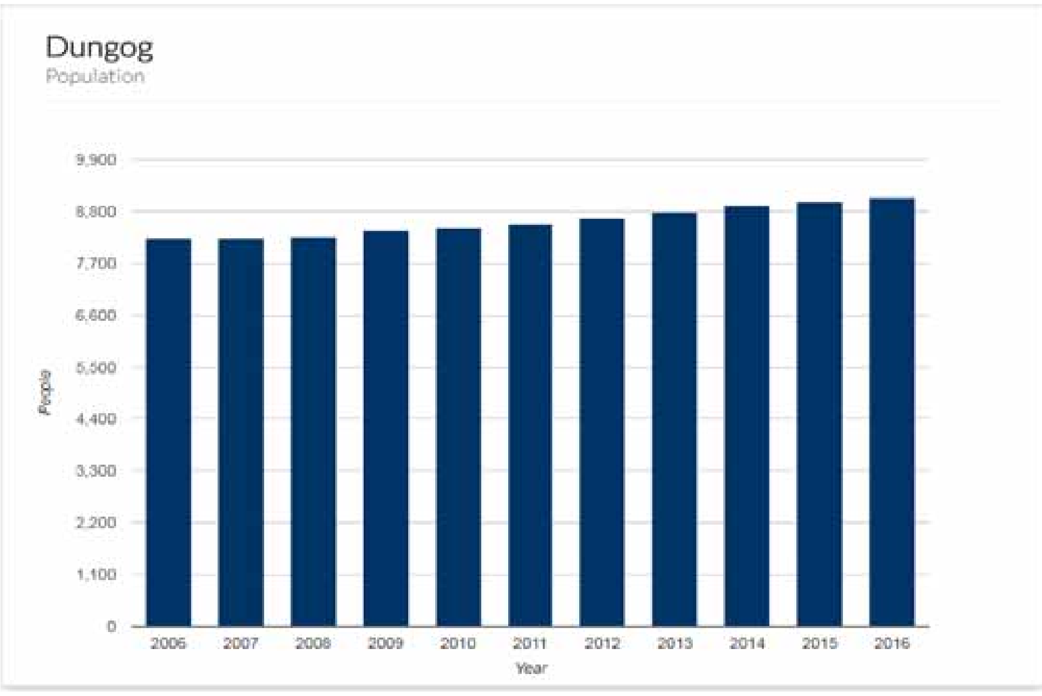
Nestled between the Pacific and New England Highways, Dungog Shire is an easy hour's drive from Newcastle and 2 hours from Sydney's northern suburbs via the M1 Pacific Motorway.

The Dungog Shire covers an area of 2,248 square kilometres. Situated in the Barrington Tops region, the Shire has a population of 8,975 as at the 2016 Census; an increase of 475 people from the previous Census period. The Shire consists predominantly of very rugged to hilly country which becomes less rugged from north to south. The major population centres within the Shire include:

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

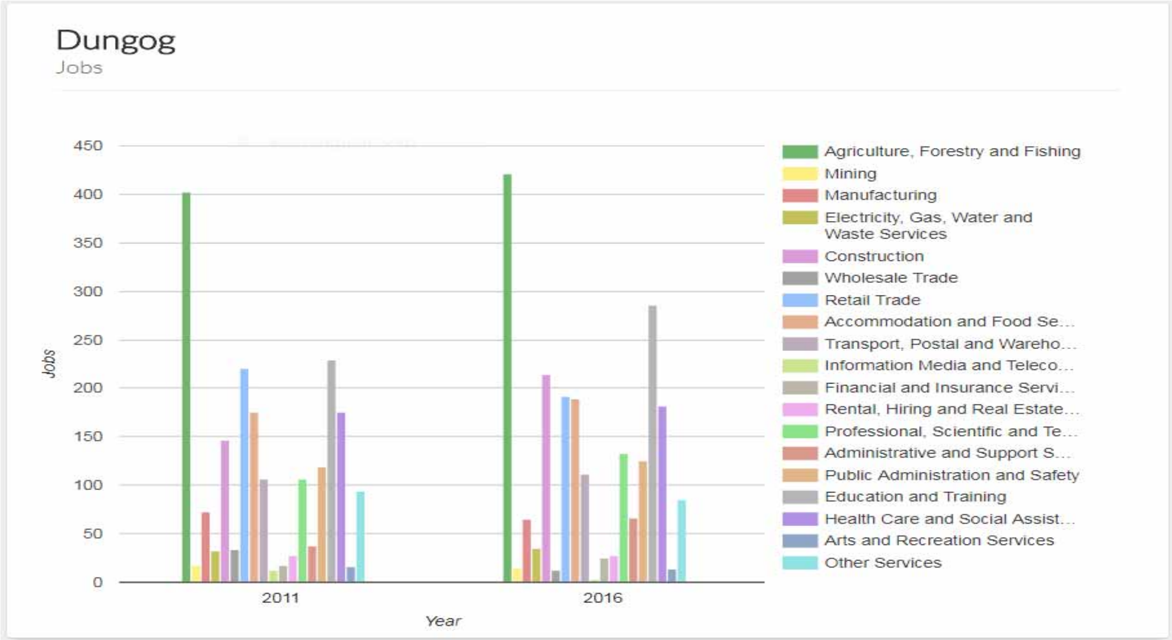
The population of the Dungog Shire continues to experience growth as can be see in the table below.

<u>**Graph 1:**</u> ***Population change Dungog Shire 2006-2016***



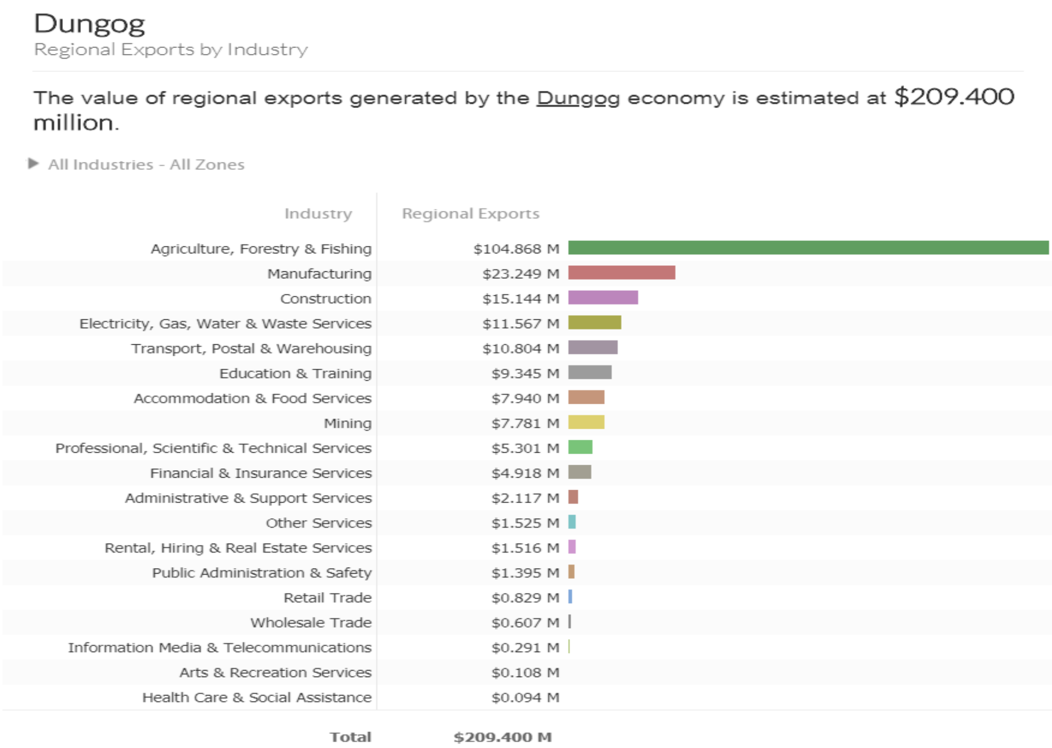
The graph below shows the number of people employed by businesses/organisations in each of the industry sectors and the changes between 2011 and 2016. Growth has occurred in Agriculture, Foresty and Fishing, Wholesale Trade, Accommodation and Food Services and Construction. There has been a drop in jobs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

<u>Graph 2:</u> ***Business/Industry Sector Changes 2011-2016***



Agriculture, Forestry and Fishing is Dungog Shire's top industry in terms of employment, with regional exports of $105M.

<u>Graph 3:</u> ***Regional exports Dungog Shire***



Dungog
Regional Exports by Industry

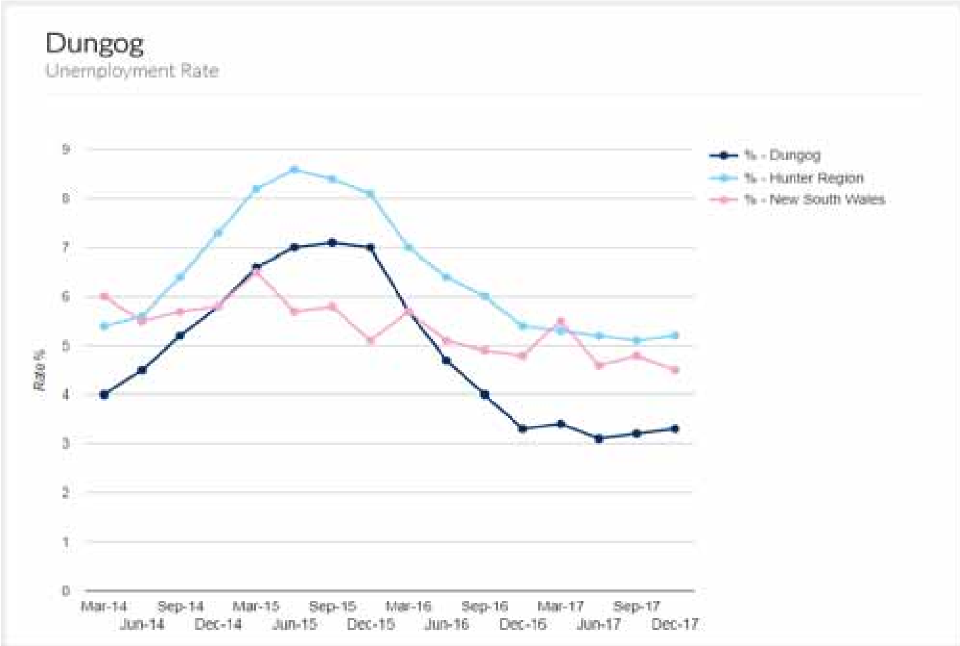
The value of regional exports generated by the Dungog economy is estimated at $209.400 million.

▶ All Industries - All Zones

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

In the Dungog Shire there are 4,118 people in the labour force (full and part time) and the unemployment rate is 5.5%, lower than the Hunter Region and NSW.

Graph 4: ***Unemployment Rate Dungog Shire***



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

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

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

Source:
Projections – NSW Department of Planning
a Population numbers are for 30th June of the year shown.
b Annual average growth rate over the five year period ending 30th June of the year shown

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

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

Source: Projections – NSW Department of Planning
a Population numbers are for 30th June of the year shown.

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

ABOUT THIS RESOURCING STRATEGY

The Dungog Shire Council Community Strategic Plan 2030 (CSP) provides a vehicle for expressing long-term community aspirations. However, these will not be achieved without sufficient resources (i.e. positive cash flow, functional assets and skilled and available personnel) to actually carry them out. The Resourcing Strategy is a critical link when it comes to translating objectives of the CSP into actions.

This Resourcing Strategy has been prepared in accordance with the requirements of the *NSW Local Government Act 1993* and the Integrated Planning and Reporting framework. The Strategy considers the resources that Council needs in order to work towards its areas of responsibility in the CSP and consists of three elements:

- Long Term Financial Planning
- Workforce Management Planning
- Asset Management Planning

This Resourcing Strategy is a ten (10) year rolling forecast that will be updated annually as part of the development of Council's Delivery Program and Operational Plan. It will be reviewed in detail as part of the four yearly review of the CSP.

The Resourcing Strategy supporting the Delivery Plan is informed by Council's Asset Management Planning (AMP), Workforce Management Plan (WMP) and Long Term Financial Plan (LTFP) which are intrinsically linked to the Community Strategic Plan. Below is a visual representation of this process.

Long Term Financial Planning

The Long Term Financial Plan (LTFP) is the point where long term community aspirations and goals outlined within the CSP are tested against financial realities. The LTFP provides a dynamic framework, in which Council maintains financial sustainability in the delivery of its core functions and assists in measuring the performance of implementing objectives within the CSP.

The LTFP contains a set of financial projections and assumptions covering a period of ten (10) years.

Workforce Management Planning

The Workforce Management Plan will assist Council to plan for the future by anticipating and managing change in our workforce to deliver the outcomes of Council's Delivery Program. It provides a framework for making decisions that align with meeting the strategic goals of the community and it identifies how future council staffing and skill needs will be met.

Asset Management Planning

Council's infrastructure assets include assets such as roads, bridges, stormwater drainage, footpaths, buildings, sporting fields and playgrounds, recreation facilities, parks and reserves. Non-infrastructure assets include land, motor vehicles, plant and equipment, office furniture, office equipment, art works and library books. These assets enable Council to provide residents, businesses and visitors with a wide range of goods and services aimed at meeting their social, economic, environmental and recreational needs.

Asset Management Planning (AMP) is intended to establish the framework, strategies and processes required to improve the management of assets to enable Council to deliver upon the corporate goals and strategies and achieve the outcomes set in the CSP. Council’s AMP will provide extensive benefits relating to governance, public accountability, risk management, service delivery, community satisfaction and financial efficiency in the short, medium and long term.

Executive Summary

Dungog Shire has a very active and involved community. This Long Term Financial Plan and the revenue strategies it contains have been developed in consultation with the community through a series of community meetings and workshops involving the Community Reference Panel, Councillors and Council staff.

Dungog Shire is not financially sustainable within its current level of funding and Council has committed to implement an Improvement Plan, including consideration for a multi-year special rate variation that is proposed to commence from 1 July 2019. Council has facilitated community meetings and workshop discussions clearly outlining Council's unsustainable financial position and the need to reduce infrastructure backlogs and increase investment in asset maintenance and renewal.

This Long Term Financial Plan models the implementation of critical financial initiatives designed to correct the financial position of Council, in particular:

- Increase revenue with a proposed tapered Special Rates Variation commencing in 2019-20 at 15% for 2 years, then 10% for 3 years, followed by 6% for two years.
- Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- Additional annual budget for Council's infrastructure maintenance program of $450,000 per annum, increasing annually.
- Additional annual budget for community infrastructure renewal, with a focus on roads and bridges. On average an additional $4.8 million per annum.
- Adequate resources, services and regulatory responsibilities that affect the wellbeing and safety of the community.

Where are we now? Our current financial position.

Operating performance

Dungog Shire Council faces a number of challenges in terms of financial sustainability. It is a small regional NSW Council with a population of 8,975[1], responsible for providing services across an area of 2,248 sq. km and maintaining $459 million of community assets.[2]

Dungog Shire Council has budgeted net operating losses for a number of years and has commenced a wide range program of community engagement to discuss the proposed Special Rate Variation that will be necessary to become a financially sustainable local government organisation.

Financial position

Council has $16.6 million of current assets, predominantly cash and investments, and it has current liabilities of $3.1 million, mostly being provisions for accrued employee leave. Of its total cash and investment assets, Council has a very low level of unrestricted cash of $252,000. This represents the total cash available that is not already committed for a specific purpose.

Council has $1.4 million in loans relating to asset upgrade and renewal projects, payable over the next 20 years. Council's non-current assets amount to $302 million, with the majority of this being the written down value of roads infrastructure.[3]

1 ABS, Census 2016 population statistic.

2 Dungog Shire Council, *Audited financial statements for the year end 30 June 2017*, gross value of infrastructure, property, plant and equipment.

3 All figures relating to Financial Position referenced from: Dungog Shire Council, *Audited financial*

Where are we going? Opportunities and challenges

'Fit for the Future' Improvement Plan

The State Government's local government industry reform known as 'Fit for the Future'[4] was commenced in 2014 as a way to benchmark all NSW Councils against a particular set of criteria and to use the results of the assessment to inform the State Government decision to amalgamate some councils. Councils that did not meet the criteria and that were not merged have been required to be reassessed against the benchmark criteria and lodge Improvement Plans with the State Government. The State Government's 'Fit for the Future' framework prevents councils from accessing State Government support until they have been reassessed under the 'Fit for the Future' criteria as having met the benchmark position. Critically for Dungog Shire Council, access to NSW Treasury loans at Government rates is being withheld.

Dungog Shire Council has developed an Improvement Plan to assist in addressing its future financial sustainability. The commencement of the major elements of this program has been delayed for four years by State Government legislation and regulations while Council was the subject of three separate merger proposals.

In 2017 the formal examination of these merger processes was completed, a new Council was elected, and Council is now able to recommence the long term strategic planning necessary to improve and secure Council's financial sustainability.

Rate pegging

NSW Councils are subject to rate pegging legislation, whereby the amount of revenue councils can raise from ordinary and special rates is limited by a capped percentage increase announced by the Independent Pricing and Regulatory Tribunal (IPART) each year. For the 2018-19 year, the rate peg has been set at 2.3%.

The rate peg is generally not equivalent to real increases in Council's costs including wage increases, government regulatory charges and electricity. There are provisions for councils to apply for Special Rate Variations (SRVs) to increase general rates above the rate peg amount and most NSW Councils have applied for at least one SRV in the past 6 years.

Financial Assistance Grants

Council has been heavily affected by a Federal Government decision to freeze indexation of Financial Assistance Grants for three years to 30 June 2017. This funding represents approximately 15% of Council's annual income and is critically important for the provision of Council services. Council is strongly in support of the need to repair Financial Assistance Grants funding to local government, noting that funding under these grants amounted to 1% of total Commonwealth revenue in 1996. That has since been eroded so that, now, they amount to just 0.55%. This has made it harder for Dungog Shire Council to maintain much needed community infrastructure and services.

Capital Grants

With constraints placed over two major sources of income, Council faces the necessity to maximise income from other sources while finding savings to enable financial sustainability. A reliance on capital grants will be necessary for asset renewal to maintain an acceptable level of asset infrastructure. However, there is a degree of uncertainty about the ongoing level of funding.

---

statements for the year end 30 June 2017, gross value of infrastructure, property, plant and equipment.

4 NSW Office of Local Government, *Fit for the Future Marketing Package,* 2014, http://www.fitforthefuture.nsw.gov.au/sites/fftf/files/Fit-for-the-Future-A-Blueprint-for-the-future-of-Local-Government.pdf

The NSW Government has announced significant capital grant funding in the short term, including for asset renewals, upgrades and new assets. Council plans to take advantage of the opportunity to apply for capital grant funding, maximising this support for its infrastructure renewal programs.

Where do we want to be? Our plan for the future

Community Vision and Key Directions

The Dungog community have developed a community vision statement:

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

The vision for the future is built around seven key themes:

1 The Natural Environment – "The health of our natural environment and biodiversity is preserved and enhanced."

2 Our Local Economy – "Our economy is strong, innovative and sustainable providing diverse employment opportunities and ease of access to goods and services."

3 Community and Culture – "We enjoy a safe supportive community characterised by vibrant cultural life and a strong sense of local heritage."

4 Rural and Urban Development – "Growth is achieved through a balanced mix of development which acknowledges our unique scenic qualities, rural amenity and country lifestyle."

5 Recreation and Open Space – "Access to a range of places, activities and facilities which cater for diverse sporting and recreational interests."

6 Public Infrastructure and Services – "Our community is supported by safe, functional, accessible and well maintained infrastructure and effective local and regional transport networks."

7 Governance and Finance – "Council is recognised for strong community leadership, financial sustainability and ethical, accountable and responsive governance."

This Long Term Financial Plan supports Council to implement the community vision. In order to live sustainably the Council has to look into the future and provide future generations with sustainable infrastructure and environment without the burden of excessive debt. A Long Term Financial Plan promotes this sustainability by ensuring that decision makers have information about the long term cumulative effects of their decisions.

The aim of the Long Term Financial Plan is to place a structure for financial decision making at a high level by providing guiding principles for the short, medium and long term.

How do we get there? Financial Strategy

Council is intent on maintaining all current levels of services for 2018-19 and beyond. In order to achieve this Council has identified that it will need to increase revenue to address the demands of maintaining fit for purpose assets and increasing costs of expenditure.

Application for a special rate variation is one of a number of actions Council has included in its Improvement Plan in order to improve overall performance and better manage community infrastructure. Council is looking to develop a positive culture of efficiency and productivity as well as to facilitate productivity improvements across the organisation. The key actions of the

Council's Improvement Plan are:

- Review of developer contribution plans to ensure that funding is put aside for the increased demands in public amenities and public services that are associated with future development.
- Review of fees and charges to identify any additional revenue streams to increase Council's revenue base.
- Continue the implementation and refinement of Council's asset management to better define asset conditions, service levels, useful lives and required annual maintenance taking into account community expectations.
- Continue to explore strategic alliance and shared service opportunities with neighbouring Council's and the Hunter Joint Organisation.
- Implementation of a program of service reviews to improve efficiency and potential for transition of non-core services to external service providers.
- Sale of Council owned assets that are surplus to need.
- Lobbying and representations to Government regarding inequities in road funding, reclassification of Dungog Shire Council's road network and the impost of unrateable land.
- Prepare a Rural Lands Strategy to inform better decisions on highest and best land use for agriculture purposes and to assist with planning for the more marginal land for other uses.

Long Term Financial Sustainability

Purpose of the Long Term Financial Plan

The Long Term Financial Plan (LTFP) is a critical part of Council's strategic planning process. It is a decision-making and problem solving tool for stakeholders (Council and the community) to use in assessing the financial realities of implementing the Dungog Shire Council Community Strategic Plan 2030. The financial modelling that has been prepared as part of this plan will provide the basis for making decisions about what resources are required for Council to deliver on its commitments to the community.

This LTFP will model the financial implications of the Dungog Shire Council Community Strategic Plan 2030 and Delivery Program, along with the ability to maintain existing facilities and infrastructure, based on a range of assumptions and within any known constraints.

This LTFP seeks to support Council in addressing the following objectives:

- Source revenue to protect and improve Council's financial sustainability
- Deliver the infrastructure required to support economic growth and expansion
- Ensure funding sources that allow Council to capitalise on future opportunities as they arise
- Adequately resource community infrastructure and services to meet the objectives contained in the Community Strategic Plan.

How do we define long term financial sustainability?

A financially sustainable council is one that has the ability to fund ongoing service delivery and the renewal and replacement of assets without imposing excessive debt or unplanned rate increases on future generations. This definition has been translated into four key financial sustainability principles that Council is committed to:

- Council must achieve a fully funded operating position reflecting that Council collects enough revenue to fund operational expenditure, repayment of debt and depreciation
- Council must maintain sufficient cash reserves to ensure that it can meet its short-term working capital requirements
- Council must have an appropriately funded capital program where the source of funding is identified and secured for both capital renewal and new capital works

- Council must maintain its asset base by renewing ageing infrastructure which is identified and by ensuring cash reserves are set aside for those works which are yet to be identified.

How is long term financial sustainability measured?

The Fit for the Future reassessment process developed a set of performance criteria and benchmark indicators. These indicators are now being used to assess the financial sustainability of councils as stand-alone entities.

Council has determined to use these performance indicators as part of assessing the long term financial health of the organisation and its capacity to fund the proposed delivery program. The following table shows our starting point, and notes unfortunately that council is only currently meeting one of the seven (7) indicators, that being the debt service ratio.

Table 1 Dungog Shire Council 2016/17 performance results

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

Financial Management in Council

Existing environment and past influences

About Dungog

The Local Government Area of Dungog is classified as a Large Rural Agricultural Council[5], located centrally within the Hunter Region and bound by the Mid Coast Council to the north-east, Port Stephens and Maitland Councils to the South, Singleton Council to the west and Upper Hunter Shire Council to the north-west.

The local government area is situated between two major state highways, the New England Highway and the Pacific Highway. The upper reaches of the Council area are part of the Barrington Tops National Park World Heritage Area. 17% of the total land area is protected conservation area, comprising of National Parks, state conservation areas and nature reserves. An additional 6% of the land area is NSW State Forests.

The Shire has close proximity to labour markets of the Lower Hunter and the resource industries in the Upper Hunter. Its key industries include agriculture, health care and ageing, forestry, manufacturing and construction, transport, tourism and professional services. The Shire has experienced average annual population growth of 1.2% over the past five years.

Dungog Shire Council is governed by 9 elected Councillors and employs 66 equivalent fulltime employees to provide a wide range of local services. Its annual revenue is $22.5 million and it provides for the construction and maintenance of $300 million infrastructure assets, including 317km of sealed local roads, 273km of unsealed roads, 123km regional roads, 71 hectares of open public space, 32 timber bridges, community halls, stormwater drainage and waste infrastructure.

Regulatory environment

In NSW, councils obtain all their powers and responsibilities under NSW legislation. The system of local government in NSW is principally created through the *NSW Local Government Act 1993.* The State also devolves many functions to councils under other Acts including the *Environmental Planning and Assessment Act 1979, Roads Act 1993, Protection of the Environment Operations Act 1997, Water Management Act 2000, Swimming Pools Act 1992 and Companion Animals Act 1998.*

Principal legislation and State strategies that drive Council operations include:

- The *NSW Local Government Act 1993*
    - Defines the scope and boundaries of Council's role and the way it must conduct its business.
- The NSW State Plan
    - The State Plan: A New Direction for NSW defines the overarching goals and outcomes that NSW Government has set for this state and which should shape public policy.
- *Environmental Planning and Assessment Act 1979*, the principal legislation regulating land use in NSW. This Act allows plans to be made to guide the process of development and to regulate competing land uses.

Council incurs significant, increasing operational costs in undertaking it's planning, reporting and compliance obligations. The NSW State Government has acknowledged the issue and commissioned IPART to identify the inefficient, unnecessary and excessive burdens that

5 Australian Classification of Local Government and Office of Local Government Group Numbers

State Government places on local government.[6] The review was completed in 2016 and is currently under consideration by the Minister for Local Government. Key IPART recommendations that impact Dungog Shire Council include the following:

- NSW Government avoid creating unnecessary and duplicative compliance requirements on councils.
- NSW Government remove restrictions on fees to allow for the recovery of efficient costs by councils.
- NSW Government grant programs address ongoing maintenance and renewal costs when funding new assets.
- Government agencies rely on existing council financial reporting processes instead of creating additional audit and performance reporting requirements.
- Streamlined acquittal processes for grants of less than $20,000.
- Local Government data is shared between state government agencies.

Financial environment – cost shifting

Local Government NSW (LGNSW), the peak organisation representing the interests of all 128 general purpose councils in the state, have just released a report titled the "***Impact of Cost Shifting on Local Government in NSW***". The report identifies Dungog Shire Council as the most affected rural council in NSW by State Government cost shifting.

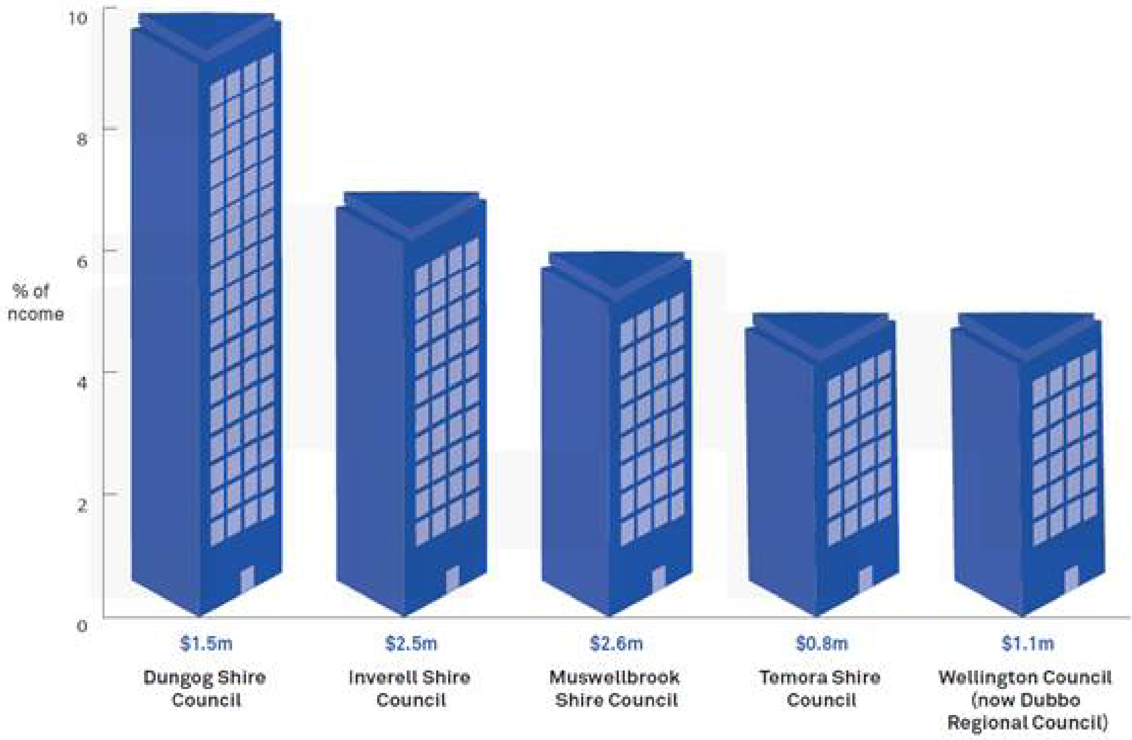
The report clearly shows that 10 percent of Dungog Shire Council's total income (before capital amounts) is spent on cost shifting expenses. Cost shifting has occurred in the areas of library funding, emergency services, and the Waste Levy whereby only 18% of the Waste Levy collected from local government by the NSW Government is returned to council for community waste minimisation and recycling programs. However, the biggest driver in cost shifting from State Government to Dungog Shire Council is road maintenance.

The transfer of responsibilities for roads under the State Government road reclassification reviews that occurred in the 1990's resulted in Dungog Shire Council inheriting an additional 118kms of roads. These roads were reclassified from main roads to regional or local roads with the direct impact being the cost shifting of ongoing renewal/maintenance costs and depreciation costs to Council. Only minimal compensation was received by Council in association with the road reclassification, and notwithstanding the annual Block Grant and Repair Program grants received Dungog Shire Council is now the only local government area in NSW without a State Road.

Cost shifting forces Council to divert ratepayers' funds away from much-needed local infrastructure projects, to meet additional demands placed on local government by the State Government. LGNSW research shows another concerning trend: not only does cost shifting continue to grow, it is growing at an accelerated rate. The per annum cost shift has more than doubled in a single decade. The federal government is responsible for just 2% of the cost shifting burden borne by councils each year.

6 IPART, Review of reporting and compliance burdens on Local Government https://www.ipart.nsw.gov.au/Home/Reviews

The five rural councils most affected by cost shifting



Financial environment - rate pegging

Council's ability to align rating revenues with the increased cost of providing local government services has been restrained for over 40 years by rate pegging, a legislative instrument whereby the maximum increase in rating revenues is set by the NSW State Government, now via IPART NSW.

Financial environment – unrateable land

More than 23% of the land area within the Dungog local government area is non-rateable with major landowners being exempt from paying rates. This includes the National Parks and State Forests, both that benefit from the provision and maintenance of local roads and bridges by Council. The rate of consumption of local road assets is higher as a result of vehicle traffic caused by foresters, visitors and contractors associated with harvesting and haulage. The supply of log products from state forest plantations causes considerable heavy vehicle activity, reducing the useful life of local roads. Dungog Shire Council has worked closely with the NSW Country Mayor's Association and the Hunter Joint Organisation to bring this matter to the attention of the NSW Government, and in particular the NSW Premier and Deputy Premier.

Financial environment - federal funding

All Australian councils receive a share of commonwealth revenue to support the provision of local infrastructure and services. This funding is facilitated through the Federal Financial Assistance Grants program. It is a vital source of funding for rural and regional councils and represents 15% of Dungog Shire Council's annual operating income (excluding capital grants).

Council is dependent on other levels of government to make decisions about the allocation of funding. Over time, the financial assistance grant has not increased in line with the real costs of providing local government services. In particular, Council's budget was heavily affected by a Federal Government decision to freeze indexation of Financial Assistance Grants for three years to 30 June 2017.

Financial environment - capital grants

Similar to other NSW regional and rural Councils, Dungog Shire Council receives a high level of capital grants to assist with the upgrade and renewal of community infrastructure as well as new assets. In the past ten years Council has received capital grant funding equivalent to 64% of its capital expenditure.

Impact of 'Fit for the Future'

In October 2014, the Minister for Local Government required NSW Councils to provide improvement proposals to demonstrate how they were, or would become, 'Fit for the Future'. Dungog Shire Council submitted a proposal opting to retain its existing structure and prepared a plan to undertake a program of improvements. The Improvement Plan has two central elements that focus on providing significant increases to Council's funding sources:

- Borrowing funds for major infrastructure projects, supplementing government grants, in particular for replacement of timber bridges.
- Making application for a significant special rates variation to address ongoing operational budget deficits.

The proposal and related improvement plan was examined by the Independent Pricing and Regulatory Tribunal (IPART) which determined that Council did not meet the government's 'Fit for the Future' criteria. Following the IPART assessment, in December 2015, the NSW Premier announced 35 council merger proposals, including the merger of Dungog Shire Council. Dungog Shire Council was subsequently considered as part of 2 additional local government merger proposals. The final determination of the proposals by the Minister for Local Government was not completed until 2017 and the Premier accepted that Dungog Shire Council should remain in place, continuing to serve the community.

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

The Office of Local Government continues to monitor council's performance against the 'Fit for the Future' benchmarks and in March 2018 invited Council to submit its updated Improvement Plan[7], outlining the actions it will take to improve its financial sustainability, infrastructure and service management and efficiency.

Financial environment – the state of Council's finances

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

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

Council has an estimated infrastructure backlog of $18,344,000[8] which represents 6.47% of it's written down infrastructure asset value, as compared to the local government prescribed industry benchmark of less than 2%. Council has not spent adequate funds on asset maintenance and renewal over the last several years and the current shortfall in Council's funding of required infrastructure asset maintenance is $1.7 million per annum.

7 Fit for the Future Council Reassessment Proposal

8 Dungog Shire Council, *Review of Special Schedule 7,* Morrison Low, updated May 2018.

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

Council has a relatively low cost per capita for the delivery of services when compared to its peer group councils.[9] Its $2,197 total operating cost per capita is 70% of the peer group average and a third of the highest Council's cost per capita. This is indicative that Dungog offers a smaller range of services comparatively and that Council has minimised the cost to ratepayers for its services through years of efficiency savings driven by the reduction in net operating revenues over time. It may also indicate that Council is at risk of under-resourcing its regulatory and compliance responsibilities.

Financial management principles

Council's approach to financial management is underpinned by the following principles:

- Spending is responsible and sustainable, aligning general revenue and expenses.
- Functions and operations are adequately and responsibly resourced.
- Investment in responsible and sustainable infrastructure for the benefit of the local community.
- Council is investing in its asset management capability and is developing a comprehensive asset management framework that will improve long term planning ensuring budgets for asset maintenance and renewal are optimally allocated.
- Making policy decisions that consider the financial effects on future generations and the current generation funding the cost of its services.
- Undertaking strong engagement with the community, ensuring that services and infrastructure meet community expectations and is within the community's ability to pay.

In conjunction with these principles, Council's Long Term Financial Plan is guided by a number of policies and strategies which are outlined below.

Rating income strategy

Rating income is generated by a levy on properties within the council area for the provision of local government services. Council reviews its rating structure annually, ensuring that it is fair and equitable, with each rating category contributing to the rate levy according to the demands placed on Council's limited resources.

Council's general rate income represents 36% of its annual operating income (excluding capital grants). Council relies on the annual rate pegging increase set by IPART to fund the real cost increases it incurs for funding community infrastructure and services. This plan models a rate peg increase of 2.5% from 2019-20 for the remaining life of the plan.

The proposed SRV application will impact on all ratepayers with a cumulative increase of 97.8% over the seven year period, including the assumed rate peg increase of 2.5% per annum.

Council continues to advocate for a change to legislation to remove rating exemptions for other levels of government that conduct business on land owned within the local government area.

9 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with all (36) Group 10 and 11 Large Rural Councils with information published http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

Domestic waste management charges

In addition Council charges a domestic waste management charge to owners of rateable properties. This covers the cost of kerbside collection and land fill services and includes the full cost of administration, service provision and tipping fees. Council actively manages a waste strategy that aims to extend the useful life of its landfill asset by increasing recycling and waste diversion rates.

Investment principles

Council has an investment policy that reinforces Council's ongoing commitment to maintain a conservative risk/return portfolio, an important component of its ongoing prudent financial management practices. The overall objectives of the policy are to ensure that Council invests its funds:

- in accordance with the requirements of the *NSW Local Government Act (1993)* and Council's investment policy
- in a conservative manner where preservation of capital is the principal objective
- in a manner that seeks to ensure the security of the Council's cash and investment portfolio, achieve appropriate earnings and manage cash resources to ensure that there is sufficient liquidity to meet Council's business objectives.

Loan borrowings

Critically given Council's inability to meet State Government's Fit for the Future criteria, access to NSW Treasury loans at government rates is being withheld. Council's approach to debt is that it be used to fund the cost of major infrastructure renewals to correct the infrastructure backlog and reduce operating maintenance costs. In addition, debt is used to enable Council to capitalise on funding opportunities for infrastructure renewal or planned expenditure on new assets where there is grant funding available that requires a co-contribution from Council.

Co-contribution funding places further restrictions on Dungog Shire Council and as such at the State Government level Dungog Council has suggested that the Premier give consideration to a blanket application for hardship applying to all Regional council's laon applications to alleviate this burden.

Cash reserves and restrictions

Council has a number of cash reserves which are either a legislative requirement (externally restricted) or through a Council decision (internally restricted).

The establishment and funding of cash reserves is a financial management strategy to provide funds for future expenditure that could not otherwise be financed during a single year without having a material impact on the budget.

Developer contributions

Sections 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979* enable Council to levy contributions for public amenities and services required as a consequence of development. With the assistance of an external technical consultant Council has commenced a review of its Developer Contribution Plans to better target and fund the future development and infrastructure requirements of the local government area.

Council is also reviewing its options to implement a framework for road and transport infrastructure contributions to recover costs to ratepayers by commercial heavy vehicles on local roads.

Discretionary and regulatory fees and charges

A review of Council fees and charges has been undertaken with regard to best value principles including value for money, community expectation and values, and a balance between affordability and accessibility of services.

Council has progressively increased fees and charges within its control to maximise user contributions to the cost of providing services.

Council currently undertakes private works as a commercial interest. Income generated from private works has been included in the financial plan modelling.

Asset disposal policy

Council has commenced to process of reviewing assets to identify and dispose of any assets which are no longer needed to provide services to the community. Any funds received will be used to increase Council's capacity to address the funding gap for its asset maintenance.

Asset management

Infrastructure assets such as roads, drains, bridges and public buildings present particular challenges as their condition and longevity can be difficult to determine and increasing public demands on quality and standards adds to the complexity. The cost of asset renewal, maintenance and upgrades is large and requires planning for large peaks and troughs in expenditure.

Council is currently reviewing its asset management strategy and reviewing and testing its asset management planning assumptions against industry standards. This Long Term Financial Plan will be kept current and updated to include reference to current asset maintenance and renewal estimates, matching the amounts reflected in asset management plans, as those plans continue to be developed.

Council has changed its approach to asset management, shifting its focus from the creation of new assets to the renewal of assets, except where critical new infrastructure is required. Council is looking to implement a new asset management system to help risk rate and prioritise the renewal and repair of infrastructure assets. Council is also undertaking a full condition assessment of its roads and bridges to better understand its liability and future renewal profile.

Employee costs

Employee costs make up approximately 25% of the annual projected expenditure. The high proportionate cost is reflective of the service based nature of a large proportion of Council activities as well as the construction and maintenance of infrastructure owned by Council. The objective of this Long Term Financial Plan is to accommodate employee costs to retain the necessary workforce to achieve the community's expectations for future projects.

Special Rates Variation

Key purpose of the special variation

Dungog Shire Council has a very low revenue base to anchor the various services required of a modern council and there are very few options to increase revenue, other than through a general rate increase. Council's inability to reach own source revenue targets and operating surplus ratios tangibly highlights the need to increase general rates. For this reason, Council is considering a special rate variation as part of the solution to becoming a financially sustainable local government authority. However, in addition to the proposed special rate variation Council is also well advanced in implementing a raft of strategies designed to correct the financial position of the organisation. These strategies which form part of Council's Improvement Plan, clearly demonstrate Council's strong resolve and willingness to be part of the solution and include the following:

- ✓ Energy efficiency initiatives including solar and other renewal energy reviews.
- ✓ Extending the life of the landfill by increasing recycling and diversion rates.
- ✓ Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- ✓ Review of developer contribution plans to ensure that funding is put aside for the increased demands in public amenities and public services that are associated with future development.
- ✓ Prepare a Rural Lands Strategy to inform better decisions on highest and best land use for agriculture purposes and to assist with planning for the more marginal land for other uses.
- ✓ Review of fees and charges to identify any additional revenue streams to increase Council's revenue base.

- ✓ Continue the implementation and refinement of Council's asset management to better define asset conditions, service levels, useful lives and required annual maintenance, taking in to account community expectations.
- ✓ Continue to explore strategic alliance and shared service opportunities with neighbouring Council's and the Hunter Joint Organisation.
- ✓ Implementation of a program of service reviews to improve efficiency and potential for transition of non-core services to external service providers.
- ✓ Sale of Council owned assets that are surplus to need.
- ✓ Lobbying and representations to Government regarding inequities in road funding, reclassification of Dungog Shire Council's road network and the impost of unrateable land.

The key purpose of the special variation is to address the shortfall in funding for maintenance and renewal of community infrastructure, in particular timber bridges and road network, and to become financially sustainable. Council has been unable to generate sufficient revenues over a long period of time to fund the required asset renewal. This is in part due to decisions by previous council's to freeze rates and at times drop rates. This has resulted in a low average rate for Dungog Shire Council compared to some neighbouring councils. Given that rates are cumulative, this loss of rates has an ongoing impact. Any ongoing failure to address this funding gap will result in a proportionate worsening of the infrastructure backlog, which is already falling well short of the sustainable target.

Council has committed to an Improvement Plan, to improve its performance against the Government's 'Fit for the Future' performance targets. Achieving the benchmarks is now Council's priority to secure its financial sustainability for the future of the community.

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

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

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

Extent of the rate rise

The proposed application for a special rate variation has been incorporated into Scenario 2 of this Long Term Financial Plan. It will impact on all ratepayers with a cumulative increase of 97.8% over a 7 year period, including an assumed rate peg increase of 2.5% per annum.

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

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

Table 2 Scenario 2 – additional income from special rates variation

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

The following table demonstrates the proposed effect of the permanent, multi-year rates increase. This extends over the whole seven year period as average rates in each category increase by a tapering percentage increase in each of these years.

Table 3 Impact on residential rates of proposed special rate variation

	Base year 2018-19	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative increase
Average residential rate under an assumed rate peg of 2.5% per annum	$863	$884	$907	$929	$925	$976	$1,001	$1,026	18.9%
Annual increase %		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Average residential rate with the proposed SV	$863	$992	$1,141	$1,255	$1,381	$1,519	$1,610	$1,707	97.8%
Annual increase %		15.00%	15.00%	10.00%	10.00%	10.00%	6.00%	6.00%	
Cumulative impact of SV above base year levels		$108	$235	$326	$428	$543	$609	$681	

Table 4 Impact on farmland rates of proposed special rate variation

	Base year 2018-19	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative increase
Average farmland rate under an assumed rate peg of 2.5% per annum	$2,214	$2,269	$2,326	$2,384	$2,444	$2,505	$2,567	$2,632	18.9%
Annual increase %		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Average farmland rate with the proposed SV	$2,214	$2,546	$2,928	$3,221	$3,543	$3,897	$4,131	$4,378	97.8%
Annual increase %		15.00%	15.00%	10.00%	10.00%	10.00%	6.00%	6.00%	
Cumulative impact of SV above base year levels		$277	$602	$837	$1,099	$1,392	$1,563	$1,747	

Table 5 Impact on business rates of proposed special rate variation

	Base year 2018-19	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative increase
Average business rate under an assumed rate peg of 2.5% per annum	$914	$937	$960	$984	$1,009	$1,034	$1,060	$1,086	18.9%
Annual increase %		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Average business rate with the proposed SV	$914	$1,051	$1,209	$1,329	$1,462	$1,609	$1,705	$1,807	97.8%
Annual increase %		15.00%	15.00%	10.00%	10.00%	10.00%	6.00%	6.00%	
Cumulative impact of SV above base year levels		$114	$248	$345	$454	$575	$645	$721	

Community support

Commencing in February 2018, Council invited all members of the Dungog Shire community to attend a series of meetings developed to inform ratepayers of Council's financial situation and the need to consider a special rates variation. Following those community meetings, a Community Reference Panel of local residents and stakeholders was formed. The panel participated in a series of workshops to discuss the financial issues facing Dungog Shire and to put forward a position to Council for consideration.

The outcome of these meetings and workshops was a recommendation by the panel to Council to develop a Long Term Financial Plan that included a Special Rate Variation option.

Information about the proposed Special Rate Variation has been compiled on Council's webpage[10] which is accessible to the public.

Impact on ratepayers

Dungog Shire Council currently has the lowest average rate of its neighbouring councils. Compared with all Group 10 councils, Dungog Shire's average rate of $1,098 is less than 82% of the average[11] and 46% of the highest council's average rate. Compared with Group 10 councils, Dungog has a higher residential rate than average; however it is less than half of the highest council's average residential rate.

Table 6 Average rate comparison[12]

Rating category	Dungog	Port Stephens	Upper Hunter	Singleton	Maitland	Mid-Coast[13]
Residential	$831	$969	$739	$829	$1,224	$1,128
Business	$880	$4,047	$898	$6,713	$6,552	$2,794
Farmland	$2,132	$1,703	$3,414	$1,990	$3,056	$1,846
All assessments	$1,098	$1,145	$1,331	$1,568	$1,585	$1,922

This table shows the average council rates for the year ended 30 June 2017. Upper Hunter and Mid-Coast Councils have subsequently applied for special rates variations for cumulative rates increases of 20.1% and 21 - 27%. Mid-Coast Council's application has been approved, and therefore it is expected that their average rate will increase over the next four years. Upper Hunter Council's application was not approved; however, Council may re-apply in a future year.

10 Dungog Shire Council, https://www.dungog.nsw.gov.au/council/special-rate-variation

11 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with all (36) Group 10 councils with information published http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

12 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with neighbouring Councils http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

13 Mid-Coast figures from IPART Determination of Special Variation Increase, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Council-Portal/Applications/2017-2018/Mid-Coast-Council/LG-Determination-Mid-Coast-Councils-application-for-a-special-variation-for-2017-18

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

According to the 2016 census, the average household weekly income in the Dungog Shire Council area was $753, compared with the NSW average of $891 and Australian average of $877. The 2016 unemployment rate was lower than the national average by 1.4%. The average monthly mortgage payment of $1,854 was also lower than the national average by $104, and lower than the NSW average by $292. [14]

Table 7 Socio-economic indicators for the Hunter Region[15]

	Dungog	Port Stephens	Upper Hunter	Singleton	Maitland	Mid-Coast[16]
Socio-economic index rating 2016[17]	83	70	67	85	75	20
Unemployment rate	3.1%	4.3%	2.8%	3.4%	4.0%	5.4%
% Pensioner residential rate	22.1%	18.9%	22%	11.9%	17.1%	Not reported
Average Taxable Income (2015)	$53,793	$52,253	$56,449	$72,888	$59,167	$43,370

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

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

2017-18	6.13%	2016-17	6.03%	2015-16	3.59%

The accepted benchmark for rural councils is 10%. Whilst there has been a one-off increase in the 2017-18 year, this ratio demonstrates that, generally, Council is able to recover its rates and annual charges within the year they are rated. This demonstrates ratepayers' capacity to pay and provides an indication that ratepayers have historically been able to pay rates and annual charges consistently.

Council has a current Hardship Policy (adopted in June 2015) that aims to provide options for ratepayers deemed to be in genuine financial hardship and to provide equitable access to financial assistance for all ratepayers. This Policy has been recently reviewed by the NSW Office of Local Government with regard to their Financial Hardship and Debt Recovery policies. It has also been reviewed by the executive of the Hunter Joint Organisation with regard to contemporary practice.

Further information in relation to Council's assessment of Capacity to Pay is included in the Annexure to this Resourcing Strategy.

14 ABS, *Data by region,* Dungog Shire Council, http://stat.abs.gov.au/itt/r.jsp?databyregion#/

15 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with neighbouring Councils http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

16 Mid-Coast figures from IPART Determination of Special Variation Increase, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Council-Portal/Applications/2017-2018/Mid-Coast-Council/LG-Determination-Mid-Coast-Councils-application-for-a-special-variation-for-2017-18

17 ABS Local Government Area (LGA) SEIFA 2016, Table 3, Index of Relative Socio-economic advantage and disadvantage, ranking within NSW by LGA. A lower ranking indicates that an area is relatively disadvantaged compared to an area with a higher ranking.

Productivity improvements

A special rate variation is only one of a number of initiatives Council has considered in order to improve its overall financial performance and better manage and maintain essential infrastructure. Council is taking action to develop a positive culture of efficiency and productivity as well as facilitating productivity gains across the organisation. These gains may lead to financial savings and non-financial savings, including improvements in Council's service delivery.

Over an extended period of operating within a constrained budget, Council's operations have become financially efficient, with staff learning to manage operations with limited resources. Whilst Council is committed to keeping its operational costs low, the focus on future efficiency gains is to enhance Council's productivity, ensuring that Council meets it current governance and service commitments with an appropriate allocation of resources.

Specific actions contained in Council's Improvement Plan include:

- Energy efficiency initiatives including solar and other renewal energy reviews.
- Extending the life of the landfill by increasing recycling and diversion rates.
- Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- Review of developer contribution plans to ensure that funding is put aside for the increased demands in public amenities and public services that are associated with future development.
- Prepare a Rural Lands Strategy to inform better decisions on highest and best land use for agriculture purposes and to assist with planning for the more marginal land for other uses.
- Review of fees and charges to identify any additional revenue streams to increase Council's revenue base.
- Continue the implementation and refinement of Council's asset management to better define asset conditions, service levels, useful lives and required annual maintenance, taking in to account community expectations.
- Continue to explore strategic alliance and shared service opportunities with neighbouring Council's (noxious weeds management, records storage, legal services, library services, environmental services and regional procurement) and the Hunter Joint Organisation.
- Implementation of a program of service reviews to improve efficiency and potential for transition of non-core services to external service providers.
- Sale of Council owned assets that are surplus to need.
- Lobbying and representations to Government regarding inequities in road funding, reclassification of Dungog Shire Council's road network and the impost of unrateable land.

Other productivity improvements and cost containment strategies Council has implemented over the past several years include the following:

- Discussions have commenced in relation to potential strategic alliance options with Port Stephens and other Hunter Councils.
- Joint contract negotiations to realise savings through procurement efficiencies. Council has participated in regional contract negotiations as well as LG Procurement industry contracts.
- Managing general cost containment projects, e.g. asset rationalisation, overdue rates recovery reviews and employee overhead cost reviews have been undertaken. Council's workers compensation insurance premium is now 1.98% of total wages paid, compared with the Local Government average of 3.24%, realising a saving in excess of $65,000 per annum.
- Improving software and systems to realise productivity improvements within Council operations and provision of services, e.g. online mapping and web-based DA tracking.

Planning Assumptions

It is impossible to be precise about forward projections for individual line items and such information is not necessary for a useful Long Term Financial Plan. However, it is necessary to understand the calculation of outcomes for financial indicators in order to identify the drivers of variations in performance between years.

Council has identified the external and internal influences that could significantly impact on Council's future financial performance. The following features of the Long Term Financial Plan have been identified as risks and volatile factors.

Market driven planning assumptions

Population forecasts

Dungog Shire Council's population is currently estimated at 8,975 and this is projected to increase to 9,700 by 2031. Over the same period the number of households is projected to increase from 3,590 to 3,800.[18]

Financial modelling in scenario 2 Improvement Plan has included an increase in rates income resulting from growth in the number of ratepayers.

Cost and revenue increase assumptions

Factors applied to revenue and expenditure in the long term plan

The following planning assumptions are constant in all financial modelling scenarios. These factors reflect the low inflation environment in Australia.

Table 8 Index factors applied for financial modelling

Assumptions	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Years 7 to 10
Rates peg	2.3%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Annual Charges	2.25%	2.25%	2.25%	2.5%	2.5%	2.5%	2.5%
User charges and fees	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Other revenue	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Grants and contributions (operating)	1%	1%	1%	1.5%	1.5%	1.5%	1.5%
Grants and contributions (capital)	1%	1%	1%	1.5%	1.5%	1.5%	2%
Salaries and wages (incl. on costs)	2%	2.5%	2.75%	3%	3%	3%	3%
Materials and contracts	1.7%	1.8%	2%	2.2%	2.2%	2.2%	2.2%
Other expenses	1.7%	1.8%	2%	2.2%	2.2%	2.2%	2.2%
Investment interest rate	3%	3%	3%	3%	3%	3%	3%
Average interest rate on borrowings	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

18 NSW Department of Planning and Environment, *2016 NSW population and household projects,* http://www.planning.nsw.gov.au/research-and-demography/demography/population-projections

The following tables outline Council's planning assumptions by revenue and expenditure types. Included within the assumptions is a brief description as to how Council has determined this assumption and the external influences which impact the assumption.

Table 9 Specific revenue assumptions

Revenue	Assumption
Rate peg	2.3% as announced for the 2017-18 year, and 2.5% in all following years in accordance with assumptions provided to Council by IPART.[19]
Special rate variation (SRV) income	Scenario 2 provides for a permanent SRV of 15% for years 1 and 2, 10% for years 3, 4 and 5, and 6% for years 6 and 7. These figures include the rate peg.
Fees and charges	Fees and charges are indexed at 2.5% per annum based on the assumption that service levels will be maintained. Council is committed to all opportunities to increase user fees where possible.
Interest and investment income	Interest on investments is assumed at 3% in 2018-19 and for the life of the Long Term Financial Plan. Interest rates across the financial markets have continued to fall over the past twelve months; consistent with low returns received over the past 10 years. Interest has been calculated on the average balance of funds invested in each year of the financial model. The timing of capital expenditure will affect Council's investment income.
Operating grants and contributions	In previous years the Financial Assistance Grant, and other sources of Federal grant funding, have not kept pace with inflation, and therefore this model applies a low inflator to the levels of grants and contributions over the life of the plan. The ten year trend reflected in this model is for operating grants to grow at a slower rate than other income sources.
Capital grants and contributions	An assumption is made that Council will continue to receive capital grants and contributions from Federal and State sources, at a level consistent with previous years.

19 IPART, *Guidelines for the preparation of an application for a special variation to general income,* https://www.olg.nsw.gov.au/sites/default/files/OLG%20-%20Special%20Variation%20Guidelines_2.pdf

Table 10 Specific expenditure assumptions

Expense	Assumption
Depreciation	The 2016-17 depreciation rates for each class of assets are assumed to continue over the 10 year modelling period. Depreciation expense varies over the modelling period dependent on the investment in new assets vs asset renewal. All classes of assets will continue to be revalued over the coming years, including a revaluation for all transport assets that is currently being completed. As this work is completed, the accuracy of depreciation calculations will be improved.
Interest costs	An average interest rate of 4.5% per annum on existing and new borrowings has been allowed over the life of this model.
Operational costs (staff and materials and contracts)	The 2017-18 revised budget is used as the base year, and indexation is used to model the ten year planning period.
Employee costs	Increases in the first three years of 2%, 2.5% and 2.75%, followed by 3% per annum. Movement in employee costs is determined through industry wide award negotiations and market forces. Impacts affecting wages volatility include internal and external factors such as the rising cost of employment, skills shortages, staff turnover, attraction and retention of Council staff, an increase in superannuation benefits, maternity and paternity leave, award increases and changes in service levels.
Asset maintenance	Additional expenditure of $451,000, indexed annually has been allowed for the annual asset maintenance program in scenario 2.

Table 11 Capital income and expenditure assumptions

Capital	Assumption
Asset renewal	Asset renewal projections accommodate Council's asset management planning, with additional allowance in Scenario 2 to address infrastructure backlogs and assist Council with meeting asset renewal benchmarks. It is assumed that the projected amounts for asset renewal will be adequate to maintain assets at a standard that is safe. As Council's asset management planning continues to be developed, future revisions of these plans will continue to be incorporated in the Long Term Financial Planning model and will improve future financial forecasts.
New assets	Council has not budgeted for expenditure on new assets for the term of the planning period, instead focusing investment on asset renewal.
Proceeds from sale of assets	No allowance has been made for proceeds from the sale of assets.

Financial Modelling

Scenario 1: Base case

Introduction

This budget is based on the current operations of the Council, and models the effect of not implementing any special rate variation. In this scenario, Council maintains its income and expenditure levels based on the 2018-19 operational plan.

Components included in model for Scenario 1

- Council's revenue growth is constrained by the decisions of external agencies, including State and Federal government grants for Council operations and capital expenditure, as well as IPART's annual rates determination.
- Council is restricted in applying for some State and Federal grant programs as eligibility requirements for these grants include a requirement for Council to match the incoming grant 50/50.
- No significant changes to income or expenditure over the life of the plan. The low base level of asset maintenance and renewal is continued for the life of the plan.
- There is an annual funding shortfall of $1.7 million for the required infrastructure asset maintenance expense.
- Scenario 1 is predicated on the idea that no significant changes will occur in terms of the level and nature of services provided by Council, the amount of funding required for the maintenance, replacement and renewal of assets or the general environment in which council operates. It shows what happens if no action is taken to improve performance against the key performance ratios.
- Under both scenarios, Council undertakes a range of productivity improvements that are being monitored and reported as part of Council's Improvement Plan. These productivity improvements may be non-financial, and Council has not reduced its budget or modelled targeted financial savings associated with this action plan. The focus of these improvements is on improved productivity and any efficiency savings are likely to lead to non-financial benefits, and improvements in Council's services.

Summary and assessment – Scenario 1

As displayed in the key performance measures in the following table (and in the financial statements) Dungog Shire Council does not meet many of the performance measure benchmarks over the planning period. Council's Operational Performance Ratio, indicating operating expenses are lagging significantly behind operating rating revenues, of -17.5 is the worst of all NSW councils according to data provided by the NSW Office of Local Government.

Council's annual operating deficit averages around 11% per annum, and the immaterial levels of unrestricted cash available as working funds are not improved. Council does not have the resources to respond quickly to opportunities or risks as they arise; however, a very low debt ratio indicates there is some capacity to borrow. This borrowing capacity is limited over time because Council's focus will increasingly be interrupted to respond to the risks faced in relation to its failing infrastructure. The infrastructure backlog grows over the life of the planning period, reaching 17% by 2028. At that time, Council will only be funding the renewal of community infrastructure at a rate of 28% per annum, causing a continuous cycle of further deterioration.

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

Table 12 Scenario 1 (Base case) Performance measures

Special Rate start and end year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/2028
Operating Results (Surplus) before Capital Grants (achieve and maintain a positive operating balance)	(2,687)	(2,505)	(2,389)	(2,288)	(2,169)	(2,056)	(1,927)	(1,800)	(1,661)	(1,554)
Operating Performance Ratio	-17.3%	-15.7%	-14.6%	-13.6%	-12.5%	-11.5%	-10.4%	-9.5%	-8.5%	-7.7%
Own Source Revenue Ratio	50.82%	51.53%	52.24%	52.77%	53.35%	53.87%	54.40%	54.90%	55.43%	55.88%
Own Source Revenue Ratio including FAGs (target is more than 60%)	63.44%	63.96%	64.49%	64.89%	65.32%	65.71%	66.13%	66.53%	66.96%	67.32%
Asset Renewal ratio	92%	60%	29%	37%	26%	35%	27%	35%	26%	28%
Infrastructure Backlog ratio (target to maintain at less than 2%)	6.7%	7.4%	8.7%	9.8%	11.1%	12.2%	13.5%	14.6%	15.8%	17.0%
Asset Maintenance ratio (target to maintain 3 year average at 100%)	66%	66%	66%	66%	66%	66%	66%	66%	66%	66%
Debt Service Ratio (target is to maintain at less than 20%)	1.50%	1.41%	1.32%	1.23%	1.15%	1.07%	0.91%	0.00%	0.00%	0.00%
Real Operating expenditure per capita	$2,070	$2,095	$2,130	$2,168	$2,209	$2,249	$2,293	$2,336	$2,386	$2,436

Table 13 Scenario 1 (base case) Capital works program

Capital expenditure	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2028 Budget
Building and Infrastructure ($'000)										
New assets	-	-	-	-	-	-	-	-	-	
Asset renewals	4,956	3,282	1,591	2,079	1,490	2,029	1,593	2,106	1,558	1,718
Other assets ($'000)										
New assets	-	-	-	-	-	-	-	-	-	-
Asset renewals	869	1,106	864	1,083	1,015	1,365	844	865	881	900

Scenario 2: Improvement Plan

Introduction

The modelling in this scenario is based on the implementation of critical financial initiatives designed to correct the financial position of Council.

- Increase revenue with a proposed tapered Special Rates Variation commencing in 2019-20 at 15% for 2 years, then 10% for 3 years, followed by 6% for 2 years.
- Increase loan borrowings to leverage additional capital grants for the replacement of Council's infrastructure backlog – in particular for the timber bridge replacement program.
- Additional annual budget for Council's infrastructure maintenance program of $450,000 per annum, increasing annually.
- Additional annual budget for community infrastructure renewal, with a focus on roads and bridges. On average an additional $4.8 million per annum.

Components included in model for Scenario 2

- Council takes action to increase its revenue base by applying to IPART for a Special Rates Variation, and by borrowing funds in order to leverage capital grant funding that requires a 50:50 co-contribution.
- The Special Rate Variation is tapered so that the annual increase is decreased over the 7 years from 2019-20 to 2025-26. The cumulative increase in rates is 97.8% over 7 years, including the cumulative increase of 18.9% from the rate peg increase. After applying the special rates variation, the additional income included in Council's rates base is $4.5 million by 2025-26.
- Council continues its program to renew its timber bridge infrastructure, with a ten year program totalling $12.8 million. The program is funded through $3.7 million capital grants, $6.8 million borrowings and $2.3 million cash reserves. Council will renew 26 load limited timber bridges, to be replaced by new structures in either concrete or steel. The significant cost of maintenance associated with timber bridge assets will be reduced and the bridge infrastructure upgrades will address the need to have load limits, thereby providing economic benefit to the region's agricultural sector.
- Council continues its program to renew road and building infrastructure, with an investment of $31 million in additional roads renewal and $3,000,000 in additional building renewal. These additional amounts are in addition to scenario 1 asset renewal, for the ten year (10) planning period.
- There is an increase to the roads maintenance budget to reduce the gap between required annual maintenance and funded annual maintenance by 25%. The additional annual maintenance budget is $451,000 in the first year, and there is still a funding gap of $1.4 million per annum for required annual maintenance.
- Similar to scenario 1, Council undertakes a range of productivity improvements that are being monitored and reported as part of Council's Improvement Plan. These productivity improvements may be non-financial and Council has not reduced its budget or modelled targeted financial savings associated with this action plan. The focus of these improvements is on improved productivity, and any efficiency savings are likely to lead to non-financial benefits and improvements in Council's services.

Summary and assessment – Scenario 2

As displayed in the key performance measures in the following table, Dungog Shire Council improves on all of the performance measure benchmarks over the planning period.

Council receives additional rates revenue which improves the bottom line, generating an operating surplus by the 4th year from 2022-23. This indicates that Council has become financially sustainable and has some financial capacity to respond quickly to opportunities or risks as they arise. As a small rural council, Dungog Shire will always remain dependent on grant funding from other levels of government. However, in Scenario 2 it has generated additional revenues from within the local government area, reducing its level of dependence, and meets the Government's criteria for "own source funding." Council has a low level of manageable borrowings that have been used to fund infrastructure renewal programs. The infrastructure backlog reduces over the life of the planning period, reaching 2.6% by 2028. However, it has not generated adequate revenue to fund 100% of the required asset maintenance and this presents a risk to its ability to provide long term affordable community infrastructure at a satisfactory level of service.

Table 14 Scenario 2 (Improvement Plan)

Special Rate start and end year	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/2028
Operating Results (Surplus) before Capital Grants (achieve and maintain a positive operating balance)	(3,061)	(2,282)	(1,362)	(698)	88	925	1,483	2,021	2,191	2,366
Operating Performance Ratio	-19.7%	-13.6%	-7.5%	-3.7%	0.4%	4.2%	6.5%	8.4%	8.9%	9.4%
Own Source Revenue Ratio	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Own Source Revenue Ratio including FAGs (target is more than 60%)	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Asset Renewal ratio	160%	165%	93%	99%	97%	117%	112%	139%	144%	121%
Infrastructure Backlog ratio (target to maintain at less than 2%)	5.5%	5.3%	5.4%	5.3%	5.2%	4.8%	4.5%	3.7%	2.8%	2.6%
Asset Maintenance ratio (target to maintain 3 year average at 100%)	74%	74%	73%	73%	72%	72%	71%	71%	70%	69%
Debt Service Ratio (target is to maintain at less than 20%)	-0.03%	0.41%	0.64%	1.99%	0.63%	1.98%	1.33%	1.37%	0.64%	1.58%
Real Operating expenditure per capita	$2,126	$2,163	$2,207	$2,249	$2,294	$2,339	$2,387	$2,437	$2,491	$2,545

Table 15 Scenario 2 (Improvement Program) Capital works program

Capital expenditure	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2028 Budget
Building and Infrastructure ($'000)										
New assets	-	-	-	-	-	-	-	-	-	
Asset renewals	8,656	8,982	5,141	5,579	5,540	6,779	6,643	8,356	8,858	7,526
Other assets ($'000)										
New assets	-	-	-	-	-	-	-	-	-	-
Asset renewals	869	1,106	864	1,083	1,015	1,365	844	865	881	1,207

Performance Measurement

We have used the ‘Fit for the Future’ criteria to measure performance for the two scenarios modelled in this plan. The following graphs compare the outcomes of the two scenarios against the benchmark. These graphs show the three year average ratios to produce a better long term picture of the financial sustainability trend.

Figure 1 Operating Surplus before Capital Grants and Contribution

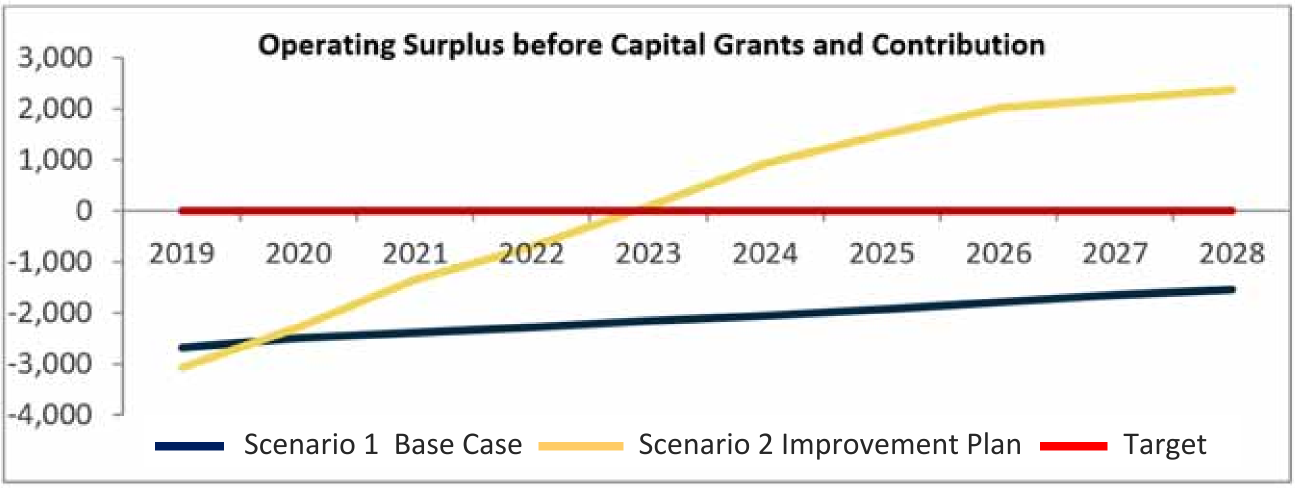


Figure 2 Operating Performance Ratio

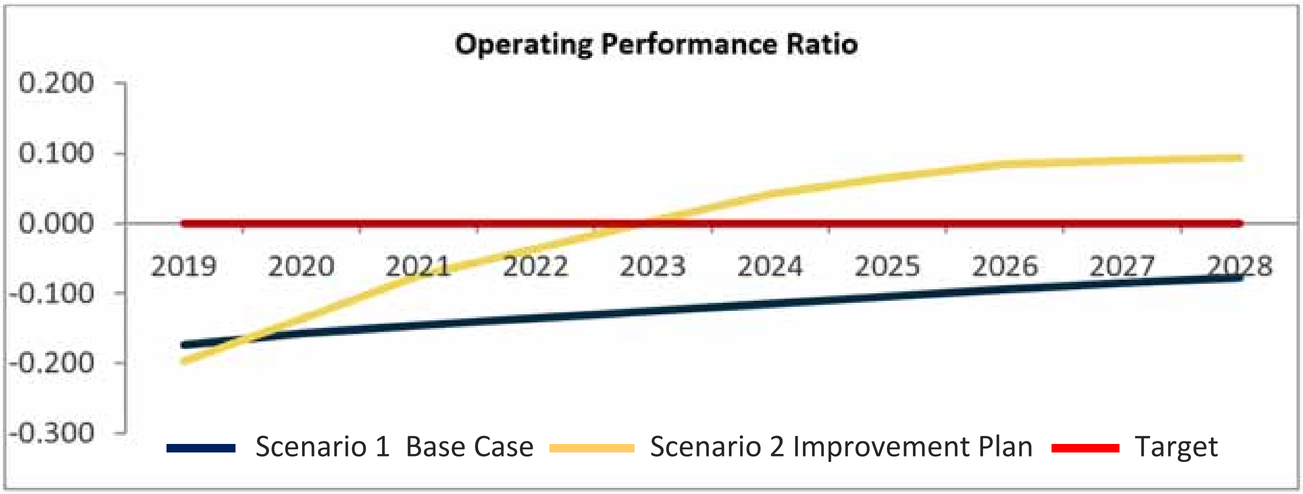


Figure 3 Own Source Revenue Ratio

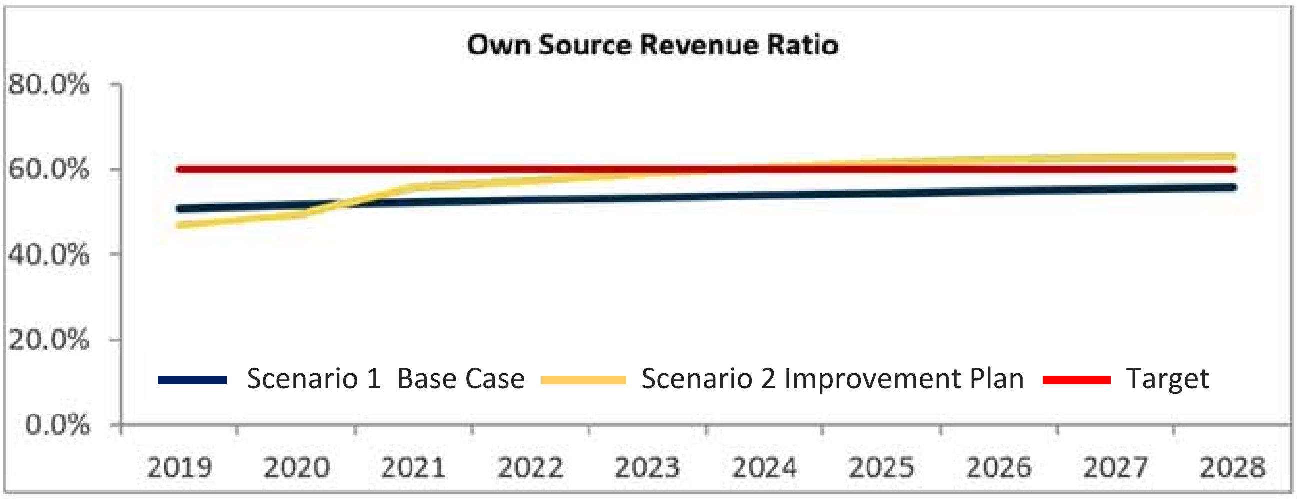


Figure 4 Building and Infrastructure asset renewal ratio

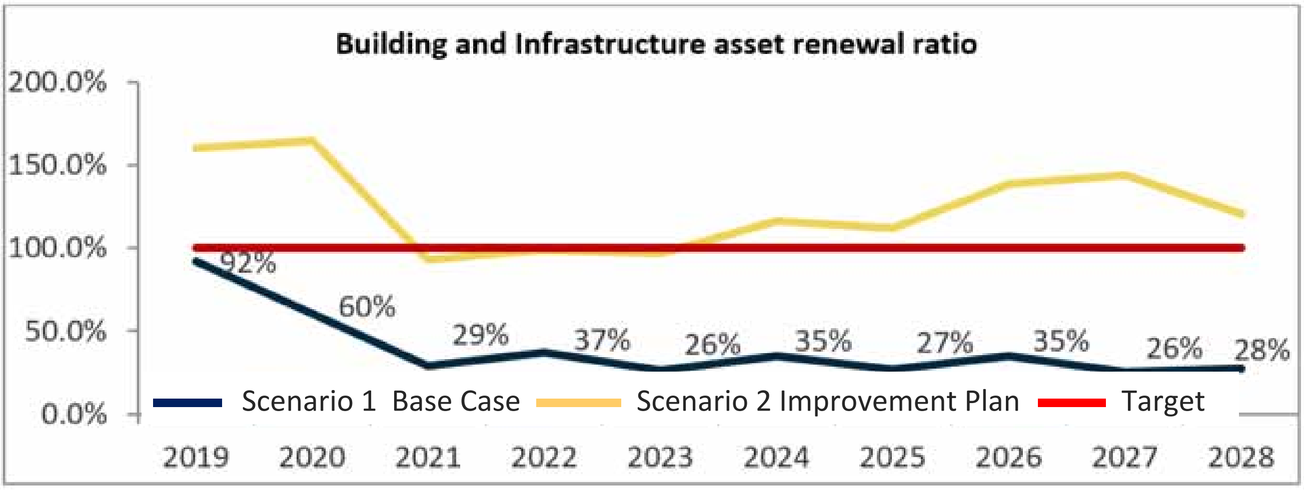


Figure 5 Building and Infrastructure backlog ratio

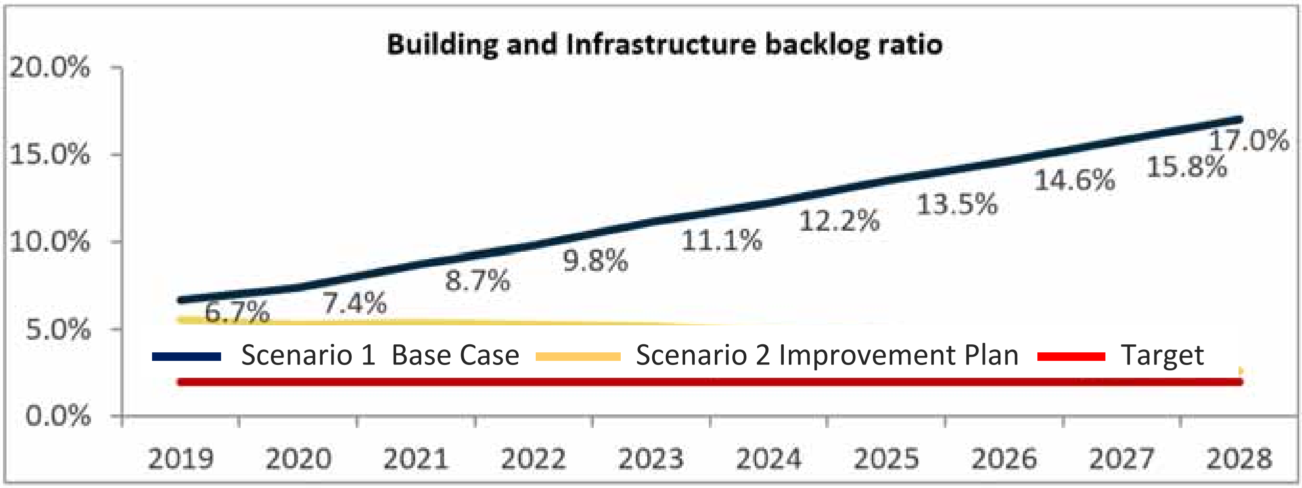


Figure 6 Asset Maintenance Ratio

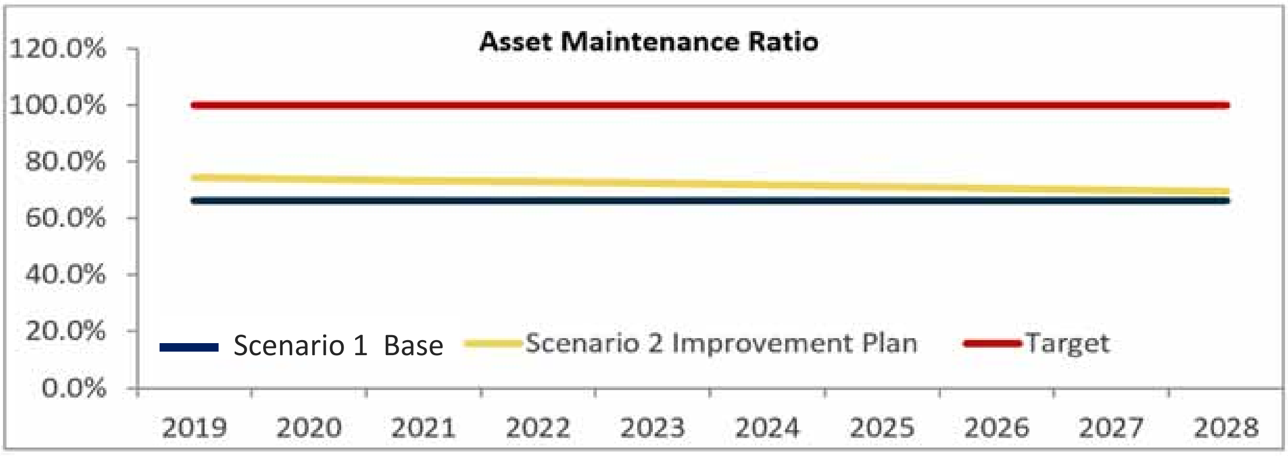


Figure 7 Real Operating Expenditure per Capita

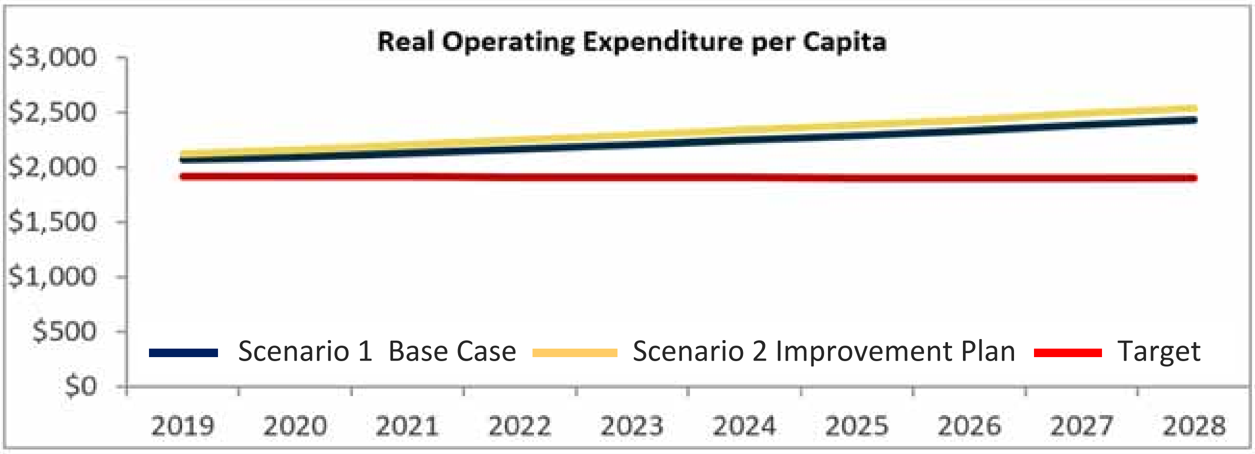
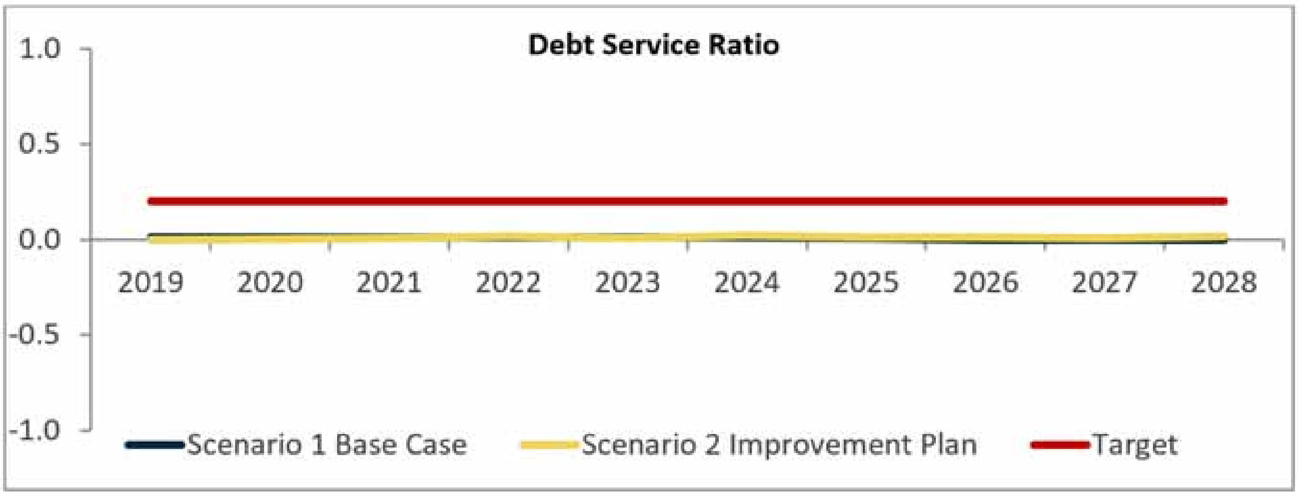


Figure 8 Debt Service Ratio



Risks and Sensitivity Analysis

Long Term Financial Plans are inherently uncertain. They contain a wide range of assumptions about interest rates and the potential effect of inflation on revenues and expenditures. Some of these assumptions will have a relatively limited impact if they are wrong. Others can have a major impact on future financial plans. The following analysis is provided to identify those matters that may have a moderate to significant impact on the results.

Risks

The major risk for Council relates to its revenues and the key assumptions which underpin this Long Term Financial Plan model. The major risks relate to:

Rates revenue

1. A risk of lower than expected rates cap increases.
2. A risk that IPART may not approve in full Council's application for a special variation.

Other revenues such as fees and charges and operating grants

3. The risk that government grant assistance diminishes or does not grow at the assumed rate. Any government policy decisions to reduce the relative value of operating grants would significantly impact Council's road asset maintenance and renewal program.
4. Lower than expected growth in other revenues.

Capital grants

5. Council has modelled a program of timber bridge renewal in Scenario 2 of this plan, with an assumption that includes $3.7 million capital grant funding for a total timber bridge renewal program of $12.8 million over 10 years. If a higher level of government grant funding is received, Council's infrastructure program may be accelerated and extended, to further reduce the infrastructure backlog and will have a positive impact on operating expenses.

Operating expenditure

6. Materials and contracts account for approximately 30% of projected annual expenditure which is reflective of the level of community infrastructure that Council maintains. Considerable pressure is placed on the cost of materials and contracts due to rising raw material costs including fuel and freight. Fuel and energy are subjected to pressure from oil prices and market fluctuations. Should unplanned major increases in cost indexes be experienced it will impact Council's operating expenses.

Interest rates on new borrowings

7. Increases in the cost of financing over the assumed interest rates used in this model.

Other costs

8. It is assumed that mandated requirements on Council will remain unchanged over the planning period. If there is an increase in Council's legal and regulatory obligations this is likely to subsequently increase annual operating expenses.

Sensitivity analysis

The sensitivities and potential impact as outlined in the following paragraphs relate to the financial projections contained in this Long Term Financial Plan.

Rates revenue

1. Each 1% change in ordinary rates revenue will result in a $57,000 change in total rates revenue under scenario 1 and $58,000 under scenario 2 for the 2019-20 year. If this change continued for each year in the ten year planning period, the cumulative impact would be a change in annual revenue of $606,000 under scenario 1 and $1,000,000 under scenario 2, by 2027-28.

Other revenues such as fees and charges and grants

2. Revenue from operating grants is $5.4 million in 2018-19 which is approximately 35% of Council's total operating income (excluding capital). Each 1% change represents $54,000 in the first year.

Operating expenditure

3. Employee costs and other operating expenditure (materials and contracts and other) comprise $12 million for 2018-19. A 1% movement in these costs represents $121,000.

Interest rates on new borrowings

4. New borrowings are utilised in scenario 2. A 1% increase on the interest expense for new borrowings would increase Council's total cost of borrowings by $479,000 over the ten year life of this Long Term Financial Plan.

Changes to the revenue or expenditure assumptions could have a material effect on the financial projections in the Long Term Financial Plan. However, Council believes the assumptions used are robust. A regular review of the modelling will ensure that Council is able to react and plan for any changes in costs and revenues over the term of this plan.

Conclusion

In this Long Term Financial Plan, Council has outlined two scenarios.

- Scenario 1 is the Base Case or ‘do nothing’ option. It models the continuation of the level of funding for Council’s services as currently provided within the 2018-19 operating plan. Scenario 1 is an unsustainable financial situation and will result in the continuing deterioration of community infrastructure.

- Scenario 2 is the Improvement Plan and proposes to increase revenue with a Special Rates Variation commencing in 2019-20 at 15% for 2 years, then 10% for 3 years, followed by 6% for 2 years. Under Scenario 2, Council increases its investment in infrastructure maintenance and renewal and becomes financially sustainable over time.

The Financial Statements contained in the following pages of this plan set out the financial performance, financial position and cashflows projected for the next ten years.

The format of the financial statements is standard across NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and legislative requirements set down by the Office of Local Government.

Scenario 1: Financial Statements

Income Statement - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Income from continuing operations											
Rates and annual charges	7,461	7,700	7,888	8,080	8,282	8,489	8,702	8,919	9,142	9,371	9,605
User charges and fees	1,235	1,266	1,298	1,330	1,363	1,397	1,432	1,468	1,505	1,543	1,581
Interest and investment revenue	486	586	753	905	1,086	1,248	1,448	1,647	1,871	2,066	2,305
Other revenues	870	892	914	937	961	985	1,009	1,034	1,060	1,087	1,114
Grants and contributions - Operating	5,490	5,545	5,601	5,685	5,770	5,857	5,944	6,034	6,124	6,216	6,309
Grants and contributions - Capital	4,228	4,270	4,313	4,378	4,443	4,510	4,600	4,692	4,786	4,882	4,979
Share of interest in joint ventures	8	8	9	9	9	9	10	10	10	10	10
Total Income	**19,778**	**20,268**	**20,775**	**21,324**	**21,914**	**22,495**	**23,145**	**23,804**	**24,499**	**25,174**	**25,904**
Expenses from continuing operations											
Employee benefits and oncosts	4,588	4,703	4,832	4,977	5,126	5,280	5,438	5,602	5,770	5,943	6,121
Borrowing costs	52	44	36	28	20	11	4	-	-	-	-
Materials and contracts	5,705	5,808	5,924	6,055	6,188	6,324	6,463	6,605	6,751	6,899	7,051
Depreciation and amortisation	6,137	6,162	6,237	6,313	6,404	6,481	6,580	6,674	6,778	6,883	6,991
Other expenses	1,754	1,786	1,822	1,862	1,903	1,945	1,987	2,031	2,076	2,121	2,168
Total Expenses	**18,237**	**18,503**	**18,851**	**19,234**	**19,640**	**20,041**	**20,472**	**20,911**	**21,374**	**21,846**	**22,331**
Net Operating Result	**1,541**	**1,765**	**1,924**	**2,090**	**2,274**	**2,454**	**2,673**	**2,892**	**3,124**	**3,328**	**3,572**
Net operating result before grants and contributions provided for capital purposes	**(2,687)**	**(2,505)**	**(2,389)**	**(2,288)**	**(2,169)**	**(2,056)**	**(1,927)**	**(1,800)**	**(1,661)**	**(1,554)**	**(1,407)**

Statement of Financial Position - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current assets											
Cash and investments	16,193	19,549	25,092	30,179	36,198	41,584	48,262	54,885	62,378	68,879	76,827
Receivables	2,168	2,235	2,290	2,346	2,405	2,465	2,527	2,590	2,654	2,721	2,789
Inventories	782	796	812	829	848	866	885	905	925	945	966
Other	18	18	18	18	18	18	18	18	18	18	18
Total current assets	**19,160**	**22,598**	**28,212**	**33,372**	**39,468**	**44,933**	**51,692**	**58,398**	**65,975**	**72,563**	**80,600**
Non-current assets											
Infrastructure, property, plant and equipment	297,650	299,895	303,167	307,524	312,024	316,688	321,498	326,464	331,582	336,856	342,290
Joint venture investments	71	71	71	71	71	71	71	71	71	71	71
Total non-current assets	**297,721**	**299,966**	**303,238**	**307,595**	**312,095**	**316,759**	**321,569**	**326,535**	**331,653**	**336,927**	**342,361**
Total Assets	**316,881**	**322,563**	**331,450**	**340,967**	**351,563**	**361,692**	**373,260**	**384,933**	**397,628**	**409,490**	**422,961**
Current liabilities											
Payables	1,426	1,455	1,489	1,526	1,564	1,604	1,644	1,685	1,728	1,771	1,816
Borrowings	181	181	181	181	181	165	-	-	-	-	-
Provisions	2,410	2,459	2,516	2,579	2,643	2,710	2,778	2,848	2,919	1,870	1,917
Total current liabilities	**4,016**	**4,096**	**4,185**	**4,286**	**4,389**	**4,478**	**4,422**	**4,533**	**4,647**	**3,641**	**3,733**
Non-current liabilities											
Borrowings	889	708	527	346	165	-	-	-	-	-	-
Provisions	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036
Total non-current liabilities	**3,925**	**3,744**	**3,563**	**3,382**	**3,201**	**3,036**	**3,036**	**3,036**	**3,036**	**3,036**	**3,036**
Total Liabilities	**7,941**	**7,840**	**7,748**	**7,668**	**7,590**	**7,514**	**7,458**	**7,569**	**7,683**	**6,677**	**6,769**
NET ASSETS	**308,939**	**314,724**	**323,701**	**333,299**	**343,974**	**354,177**	**365,802**	**377,364**	**389,945**	**402,813**	**416,192**
Equity											
Accumulated surplus	133,501	135,266	137,190	139,280	141,555	144,009	146,681	149,574	152,698	156,026	159,598
Revaluation reserves	175,438	179,457	186,511	194,019	202,419	210,169	219,121	227,791	237,247	246,787	256,593
TOTAL EQUITY	**308,939**	**314,724**	**323,701**	**333,299**	**343,974**	**354,177**	**365,802**	**377,364**	**389,945**	**402,813**	**416,192**

Statement of Cash Flows - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash flows from operating activities											
Receipts:											
Rates and annual charges	7,461	7,700	7,888	8,080	8,282	8,489	8,702	8,919	9,142	9,371	9,605
User charges and fees	1,181	1,199	1,243	1,274	1,305	1,337	1,371	1,405	1,440	1,476	1,513
Investment revenue and interest	486	586	753	905	1,086	1,248	1,448	1,647	1,871	2,066	2,305
Grants and contributions	9,718	9,815	9,914	10,062	10,213	10,366	10,544	10,726	10,910	11,098	11,288
Other	878	900	923	946	970	994	1,019	1,044	1,070	1,097	1,124
Payments:											
Employee benefits and on-costs	(4,623)	(4,653)	(4,776)	(4,914)	(5,062)	(5,214)	(5,370)	(5,532)	(5,698)	(6,992)	(6,074)
Materials and contracts	(5,632)	(5,793)	(5,907)	(6,035)	(6,168)	(6,303)	(6,442)	(6,583)	(6,728)	(6,876)	(7,027)
Borrowing costs	(52)	(44)	(36)	(28)	(20)	(11)	(4)	-	-	-	-
Other	(1,754)	(1,786)	(1,822)	(1,862)	(1,903)	(1,945)	(1,987)	(2,031)	(2,076)	(2,121)	(2,168)
Net cash provided (or used) in operating activities	**7,662**	**7,925**	**8,180**	**8,429**	**8,704**	**8,961**	**9,280**	**9,594**	**9,932**	**9,119**	**10,567**
Cash flows from investing activities											
Payments:											
Purchase of infrastructure, property, plant and equipment	(5,825)	(4,388)	(2,456)	(3,162)	(2,504)	(3,394)	(2,437)	(2,971)	(2,439)	(2,618)	(2,619)
Net cash provided (or used) in investing activities	**(5,825)**	**(4,388)**	**(2,456)**	**(3,162)**	**(2,504)**	**(3,394)**	**(2,437)**	**(2,971)**	**(2,439)**	**(2,618)**	**(2,619)**
Cash flows from financing activities											
Payments:											
Loan repayments	(181)	(181)	(181)	(181)	(181)	(181)	(165)	-	-	-	-
Net cash provided (or used) in financing activities	**(181)**	**(181)**	**(181)**	**(181)**	**(181)**	**(181)**	**(165)**	**-**	**-**	**-**	**-**
Net increase / (decrease) in cash	1,656	3,356	5,543	5,087	6,019	5,386	6,678	6,624	7,493	6,501	7,948
Cash at the beginning of the year	9,536	11,193	14,549	20,092	25,179	31,198	36,584	43,262	49,885	57,378	63,879
Cash at the end of the year	**11,193**	**14,549**	**20,092**	**25,179**	**31,198**	**36,584**	**43,262**	**49,885**	**57,378**	**63,879**	**71,827**

Scenario 2: Financial Statements

Income Statement - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Income from continuing operations											
Rates and annual charges	7,525	8,551	9,636	10,491	11,433	12,467	13,183	13,941	14,328	14,727	15,136
User charges and fees	1,235	1,266	1,298	1,330	1,363	1,397	1,432	1,468	1,505	1,543	1,581
Interest and investment revenue	519	557	709	801	948	1,052	1,223	1,344	1,485	1,608	1,823
Other revenues	870	892	914	937	961	985	1,009	1,034	1,060	1,087	1,114
Grants and contributions - Operating	5,490	5,545	5,601	5,685	5,770	5,857	5,944	6,034	6,124	6,216	6,309
Grants and contributions - Capital	6,028	6,088	4,323	4,387	4,453	4,520	4,610	4,703	4,797	4,893	4,990
Share of interest in joint ventures	8	8	9	9	9	9	10	10	10	10	10
Total Income	**21,675**	**22,908**	**22,489**	**23,640**	**24,937**	**26,287**	**27,412**	**28,533**	**29,309**	**30,082**	**30,965**
Expenses from continuing operations											
Employee benefits and oncosts	4,588	4,703	4,832	4,977	5,126	5,280	5,438	5,602	5,770	5,943	6,121
Borrowing costs	93	166	214	221	226	231	236	244	254	263	272
Materials and contracts	6,156	6,285	6,423	6,577	6,736	6,903	7,073	7,252	7,438	7,623	7,796
Depreciation and amortisation	6,137	6,163	6,238	6,315	6,406	6,484	6,585	6,681	6,785	6,876	6,929
Other expenses	1,754	1,786	1,822	1,862	1,903	1,945	1,987	2,031	2,076	2,121	2,168
Total Expenses	**18,729**	**19,102**	**19,528**	**19,951**	**20,397**	**20,843**	**21,320**	**21,810**	**22,323**	**22,826**	**23,286**
Net Operating Result	**2,947**	**3,806**	**2,961**	**3,689**	**4,540**	**5,444**	**6,092**	**6,723**	**6,986**	**7,257**	**7,679**
Net operating result before grants and contributions provided for capital purposes	**(3,081)**	**(2,282)**	**(1,362)**	**(698)**	**87**	**924**	**1,482**	**2,020**	**2,190**	**2,364**	**2,688**

Statement of Financial Position - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Current assets											
Cash and investments	17,288	18,582	23,633	26,702	31,591	35,051	40,779	44,790	49,492	53,590	60,781
Receivables	2,184	2,447	1,198	1,295	1,402	1,519	1,602	1,689	1,735	1,783	1,832
Inventories	782	796	812	829	848	866	885	905	925	945	966
Other	18	18	18	18	18	18	18	18	18	18	18
Total current assets	**20,271**	**21,843**	**25,661**	**28,845**	**33,859**	**37,455**	**43,284**	**47,402**	**52,170**	**56,336**	**63,597**
Non-current assets											
Infrastructure, property, plant and equipment	301,350	309,361	316,372	324,518	333,440	343,321	353,762	365,681	378,705	390,024	398,741
Joint venture investments	71	71	71	71	71	71	71	71	71	71	71
Total non-current assets	**301,421**	**309,432**	**316,443**	**324,589**	**333,511**	**343,392**	**353,833**	**365,752**	**378,776**	**390,095**	**398,812**
Total Assets	**321,692**	**331,275**	**342,104**	**353,433**	**367,370**	**380,847**	**397,117**	**413,153**	**430,946**	**446,431**	**462,409**
Current liabilities											
Payables	1,479	1,512	1,548	1,588	1,629	1,672	1,716	1,762	1,809	1,857	1,904
Borrowings	181	181	181	181	181	165	-	-	-	-	-
Provisions	2,410	2,459	2,516	2,579	2,643	2,710	2,778	2,848	2,919	1,870	1,917
Total current liabilities	**4,070**	**4,152**	**4,244**	**4,347**	**4,453**	**4,547**	**4,494**	**4,609**	**4,728**	**3,727**	**3,821**
Non-current liabilities											
Borrowings	2,709	4,318	4,851	4,590	5,107	4,826	5,518	5,337	5,955	5,722	6,372
Provisions	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036	3,036
Total non-current liabilities	**5,745**	**7,354**	**7,887**	**7,626**	**8,143**	**7,862**	**8,554**	**8,373**	**8,991**	**8,758**	**9,408**
Total Liabilities	**9,815**	**11,506**	**12,131**	**11,973**	**12,596**	**12,409**	**13,048**	**12,982**	**13,719**	**12,485**	**13,229**
NET ASSETS	**311,877**	**319,769**	**329,972**	**341,460**	**354,774**	**368,438**	**384,069**	**400,171**	**417,227**	**433,946**	**449,180**
Equity											
Accumulated surplus	135,029	138,835	141,796	145,485	150,025	155,468	161,561	168,283	175,270	182,526	190,205
Revaluation reserves	176,848	180,933	188,177	195,975	204,749	212,970	222,508	231,888	241,958	251,420	258,974
TOTAL EQUITY	**311,877**	**319,769**	**329,972**	**341,460**	**354,774**	**368,438**	**384,069**	**400,171**	**417,227**	**433,946**	**449,180**

Statement of Cash Flows - General Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Cash flows from operating activities											
Receipts:											
Rates and annual charges	7,525	8,551	9,636	10,491	11,433	12,467	13,183	13,941	14,328	14,727	15,136
User charges and fees	1,165	1,003	2,547	1,233	1,256	1,280	1,350	1,381	1,458	1,495	1,532
Investment revenue and interest	519	557	709	801	948	1,052	1,223	1,344	1,485	1,608	1,823
Grants and contributions	11,518	11,633	9,923	10,072	10,223	10,377	10,555	10,736	10,921	11,109	11,300
Other	878	900	923	946	970	994	1,019	1,044	1,070	1,097	1,124
Payments:											
Employee benefits and on-costs	(4,623)	(4,653)	(4,776)	(4,914)	(5,062)	(5,214)	(5,370)	(5,532)	(5,698)	(6,992)	(6,074)
Materials and contracts	(6,029)	(6,266)	(6,403)	(6,555)	(6,713)	(6,879)	(7,048)	(7,226)	(7,411)	(7,595)	(7,770)
Borrowing costs	(93)	(166)	(214)	(221)	(226)	(231)	(236)	(244)	(254)	(263)	(272)
Other	(1,754)	(1,786)	(1,822)	(1,862)	(1,903)	(1,945)	(1,987)	(2,031)	(2,076)	(2,121)	(2,168)
Net cash provided (or used) in operating activities	**9,105**	**9,773**	**10,524**	**9,992**	**10,927**	**11,901**	**12,688**	**13,413**	**13,824**	**13,064**	**14,632**
Cash flows from investing activities											
Payments:											
Purchase of infrastructure, property, plant and equipment	(9,525)	(10,088)	(6,006)	(6,662)	(6,554)	(8,144)	(7,487)	(9,221)	(9,739)	(8,733)	(8,091)
Net cash provided (or used) in investing activities	**(9,525)**	**(10,088)**	**(6,006)**	**(6,662)**	**(6,554)**	**(8,144)**	**(7,487)**	**(9,221)**	**(9,739)**	**(8,733)**	**(8,091)**
Cash flows from financing activities											
Receipts:											
New loans	1,639	1,609	533	-	517	-	692	-	618	-	650
Payments:											
Loan repayments	-	-	-	(261)	-	(297)	(165)	(181)	-	(233)	-
Net cash provided (or used) in financing activities	**1,639**	**1,609**	**533**	**(261)**	**517**	**(297)**	**527**	**(181)**	**618**	**(233)**	**650**
Net increase / (decrease) in cash	1,219	1,294	5,051	3,069	4,890	3,460	5,727	4,011	4,702	4,098	7,191
Cash at the beginning of the year	11,068	12,288	13,582	18,633	21,702	26,591	30,051	35,779	39,790	44,492	48,590
Cash at the end of the year	**12,288**	**13,582**	**18,633**	**21,702**	**26,591**	**30,051**	**35,779**	**39,790**	**44,492**	**48,590**	**55,781**

WORKFORCE MANAGEMENT PLANNING

Introduction

Council is recognised as a key stakeholder in the local economy. It is one of only 3 businesses in the Dungog Local Government area employing more than 50 persons. It also has a significant role in shaping the context within which the local community, business and industries operate.

In order for Council to achieve its mission to manage, enhance and protect the resources of the shire, in consultation with the community, Council must develop a strong, diverse and motivated workforce capable of delivering responsive services aligned to the needs of our community now and into the future.

Council delivers a diverse range of services to residents and is responsible for a portfolio of more than $470 Million in assets that it manages on behalf of the community. Over the next four years, Council will be implementing its 'Improvement Plan' to ensure its long term financial sustainability. Achieving this goal will place increasing demands on Council's workforce to be more efficient and innovative in the way we deliver services to the community.

This Workforce Management Plan is designed to provide the organisation with a strategic framework for dealing with workforce challenges in a consistent way and to build a workforce that is capable of meeting the demands of a growing population and a changing environment.

Why do Workforce Planning?

Workforce planning is an important element of the NSW Integrated Planning and Reporting Framework. All councils in NSW are required to develop a CSP for their Local Government Area with a long term focus (a minimum of 10 years) addressing social, environmental and economic issues as well as civic leadership.

In addition to the Community Strategic Plan, Councils are required to develop a Resourcing Strategy, a four year Delivery Program and a one year Operational Plan. The Community Strategic Plan identifies the priorities and aspirations of the community for the future. The Delivery Plan describes the activities which will be implemented to achieve the community's priorities and the Operational Plan outlines the detail of the projects to be implemented.

What is Workforce Planning?

Workforce planning is a process which analyses the current workforce profile to determine future needs. It aims to ensure that Council has the right mix of people, skills and resources to deliver services to the community and achieve the objectives outlined in the Community Strategic Plan.

The Workforce Plan complements Council's Delivery Program through the implementation of strategies to build Council's workforce capabilities over the four year period. These strategies will allow the organisation to operate effectively by building a culture that continues to seek, develop, and retain competent and skilled staff. This will be achieved by:

- undertaking a review of Council's strategic direction and its impact on the workforce
- analysing the current and future workforce needs and capabilities

- developing strategies to address workforce gaps
- implementing strategies to better align the workforce with future business needs
- identifying and planning for new and emerging roles
- realigning positions to meet future needs
- allocating staffing resources based on strategic priorities
- increasing employee engagement
- developing and promoting a shared culture of organisation values
- providing improved career development and recognition programs.

Our Workforce Planning Challenges

All councils across NSW face the financial challenge of maintaining service levels and resourcing the proper management of ageing community infrastructure. To respond to this Dungog Council will need to attract and retain suitably qualified employees within a competitive labour market while also managing the impact of an ageing workforce. Our workforce planning will need to consider a number of issues.

Reshaping the Organisation

A priority will be to review the organisational structure to align our operations and our financial and staffing resources to deliver on the needs and priorities of our community. As a council we must become more outcome focused and have a clear understanding of what we have been asked to achieve as set down in the CSP. This will enable us to pursue our strategic and business objectives in a consistent manner so that we can make confident decisions based on sound strategies.

Between February and July 2018, Council completed a three-stage community engagement strategy where we asked residents to tell us about their satisfaction with Council services, their priorities for future investment, and their feedback about our community's draft plan for the future. These conversations highlighted a number of areas which may require additional or reconfigured workforce investment over the next four years.

Workforce investment priorities over the next four years

- Strategic asset management - consolidating Council's capability to effectively manage and prioritise infrastructure spending to deliver optimum service levels.
- Land use planning - completing the critical preparatory work that will inform Council's long term planning for sustainable and sympathetic development.
- Effective local compliance - initiating programs to increase community awareness of the regulations that keep our community safe and conserve our shared environment.
- Digital media and community engagement - increasing Council's capacity to communicate with and maintain relationships with the community and other stakeholders.
- Business improvement - building Council's capacity to achieve the operating efficiencies expected by our community and deliver responsive customer services.

Delivery of the Workforce Plan

The delivery of Council's CSP relies partly upon the effective implementation of Council's Workforce Management Plan. A key issue for the workforce is the down-time associated with staff turnover and extended periods of leave which may have a significant impact on the achievement of objectives within the plan.

Council Funding

In preparing its Improvement Plan, council has undertaken a comprehensive review of its financial position. The outcome of this review has indicated that Council does not have the necessary revenue to meet the service level expectations of residents or maintain current service levels into the future. Council's major source of revenue is derived from rates which account for 36% of its annual operating income (excluding capital grants). Council's Improvement Plan includes a proposed application for a Special Rate Variation (SRV) to raise the balance of the revenue that will be required to maintain service levels and fund the infrastructure priorities identified by residents.

Council continues to consult with residents about options for resourcing the future. The outcomes of these consultations will determine which resourcing option council will pursue, which in turn will have significant implications on future service levels and the implementation of this workforce plan.

Employment at Council

Council has a strong reputation within the local community as a secure employer. However an increasing proportion of Council's workforce is appointed on a temporary basis and subject to the continued availability of funding, which means that retention of these employees can be challenging. This is especially the case in relation to Council's planning, engineering and other technical or specialist functions.

Service Delivery

In July 2018, Council completed a third round of consultations presenting information to residents about the assets that Council manages on the community's behalf and the financial challenges faced by council in maintaining these assets. The outcomes of these consultations indicated that residents wanted Council to improve service levels by increasing its investment in assets.

As part of the review of the Dungog Shire Community Strategic Plan and Delivery Program, Council undertook three rounds of consultations between February and July 2018 to canvass the views of the community about the challenges we face in planning for a sustainable future for the Dungog Shire. The key messages that came out of these consultations are summarised below.

Our Community told us that they would like Council to:

- Upgrade roads, bridges, drainage, public toilets, parks and buildings.
- Advocate strongly to the NSW Government for improved infrastructure.
- Secure its financial sustainability.
- Strengthen its communication and engagement with the community
- Advocate for better public transport and health services.
- Maintain the health of waterways and minimise the ecological impacts of urban development.
- Promote more recycling and resource re-use.
- Plan for more sustainable and balanced development.
- Build on our areas heritage to promote tourism.
- Collaborate to increase local employment, economic diversity and community safety.

The Workforce Management Plan over the next four years seeks to maintain the current suite of services and service levels as well as address the expectations of our community for improved services. Communities are expecting more services particularly when compared with adjoining local government areas experiencing higher levels of development and population growth.
Our local government area is projected to experience some population growth over the next four years associated with residential developments in Dungog, Clarence Town, Paterson and Vacy. However, this population growth will be relatively modest when compared with our adjoining councils - particularly Maitland and Port Stephens Council's. The projected growth within the Dungog Shire will not generate the same levels of increased rating revenue and developer contributions as occurring in adjoining council areas and the capacity for Council to grow its workforce and expand its service offerings to meet the community's service level expectations will be limited.

Within this environment, Council will need to take advantage of opportunities as they arise to review positions and reconfigure staffing resources to ensure that it is in a position to deliver cost effective and best value services within the resources that are available. Maintaining and improving the quality of services will be an ongoing challenge.

The skills necessary to respond to our community's needs in the future have been identified in job families such as strategic asset management, business improvement, digital media presence and on- line business platforms and land use planning. The key challenge for Council will be to deliver affordable services at levels the community considers satisfactory supported by sustainable financial, asset and workforce management.

Skills and Labour Shortages

The skills shortages in broad areas of Local Government also continue to present a challenge for Council, especially in the areas of planning, engineering, finance and skilled trade and plant operators. It will be important to identify and implement strategies to address these shortages during the reporting period.

Ageing Workforce

Around 21% of Council's workforce is either currently beyond retirement age or nearing retirement (60 years plus). Challenges for Council associated with an ageing workforce include:

- retention of ageing employees
- transfer of corporate knowledge at the time long servicing staff retire
- facilitation of transition to retirement
- increased work related risks in operational roles.

Technology Changes

Rapid advancement in technology has reduced the demand for some traditional skills and has led to the development of new technology based skills, including the ability to manage information and communications systems. In addition new technologies are changing the way work is carried out. This means that it will be crucial for staff to keep pace with changes in technology to improve efficiencies and improvements to services.

Employment

Unemployment rates in the Dungog Shire are lower to the rest of New South Wales which suggests that the labour market is competitive, making it challenging to attract skilled employees, especially in specialist professional and management roles. The development of strategies to attract competent and skilled staff will be important leading into the future.

Equity and Diversity in the Workplace

Council must continue to seek innovative solutions to breaking down barriers by creating more equitable work strategies to promote gender equity and diversity across all levels of the organisation. This may involve a review of recruitment strategies and recruitment outcomes for specific positions, typically around management and professional roles, by offering a variety of more flexible work solutions.

Legislative Changes

In recent years planning legislation has been modified over 150 times to try to keep up with changes in the community, but it has reached a point where the State Government believes a new planning system is required.

Local councils are now required to take a leadership role in the new planning system and council's will have a greater focus on strategic planning which caters for long-term growth, infrastructure provision and environmental protection across council areas and regions

Accreditation changes to the Building Industry also place pressures on staff to obtain additional qualifications to do their current job, and may also present issues for staff retention as qualified staff may be in more demand in the private sector.

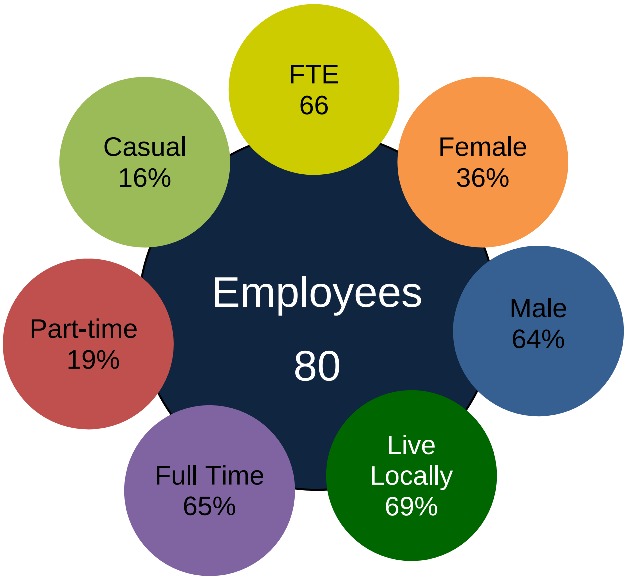
Recent changes to employment legislation have placed a stronger emphasis on increased flexibility for employees with family responsibilities. These changes will create resourcing issues for Council; however they are considered a necessary benefit to deal with the changing family dynamic. Other changes to superannuation benefits, retirement plans and the age pension will also continue to impact on staffing resources and employment costs.

Summary of Key Workforce Trends

According to survey data, key trends and factors that will impact on the local government sector over the next five years are:

- projected exits (retirements)
- labour shortages
- regulation/legislation
- economic factors (remuneration levels)
- growth in demand (across key workforce categories)
- impact of new technologies
- Work Health and Safety (WHS) issues

Our Workforce - A Snapshot (as at 1July 2018)



Age of our Workforce

2 (3%) are aged 15 to 24	7 (9%) are aged 25 to 34	17 (21%) are aged 35 to 44
5% of the NSW council workforce is 15 to 24	16% of the NSW council workforce is 25 to 34	22% of the NSW council workforce is 35 to 44
24 (30%) are aged 45 to 54	21 (26% are aged 55 to 64	9 (11%) are aged 65+
29% of the NSW council workforce is 45 to 54	24% of the NSW council workforce is 55 to 64	4% of the NSW council workforce is 65+

Length of Service

Seventy per cent of our employees have been with council for 10 years or less and 30% for 10 years or more. This is similar to the average for all NSW councils where 63% of employees have been employed for 10 years or less and 37% for 10 years or more.

33 (41%) have been employed for 5 years or less	23 (29%) have been employed 6 to 10 years	4 (5%) have been employed 11 to 15 years
The average for NSW councils is 42%	The average for NSW councils is 21%	The average for NSW councils is 14%
6 (8%) have been employed 16 to 20 years	4 (5%) have been employed 21 to 25 years	10 (12%) have been employed for 25+ years
The average for NSW councils is 8%	The average for NSW councils is 6%	The average for NSW councils is 9%

Employee Retention

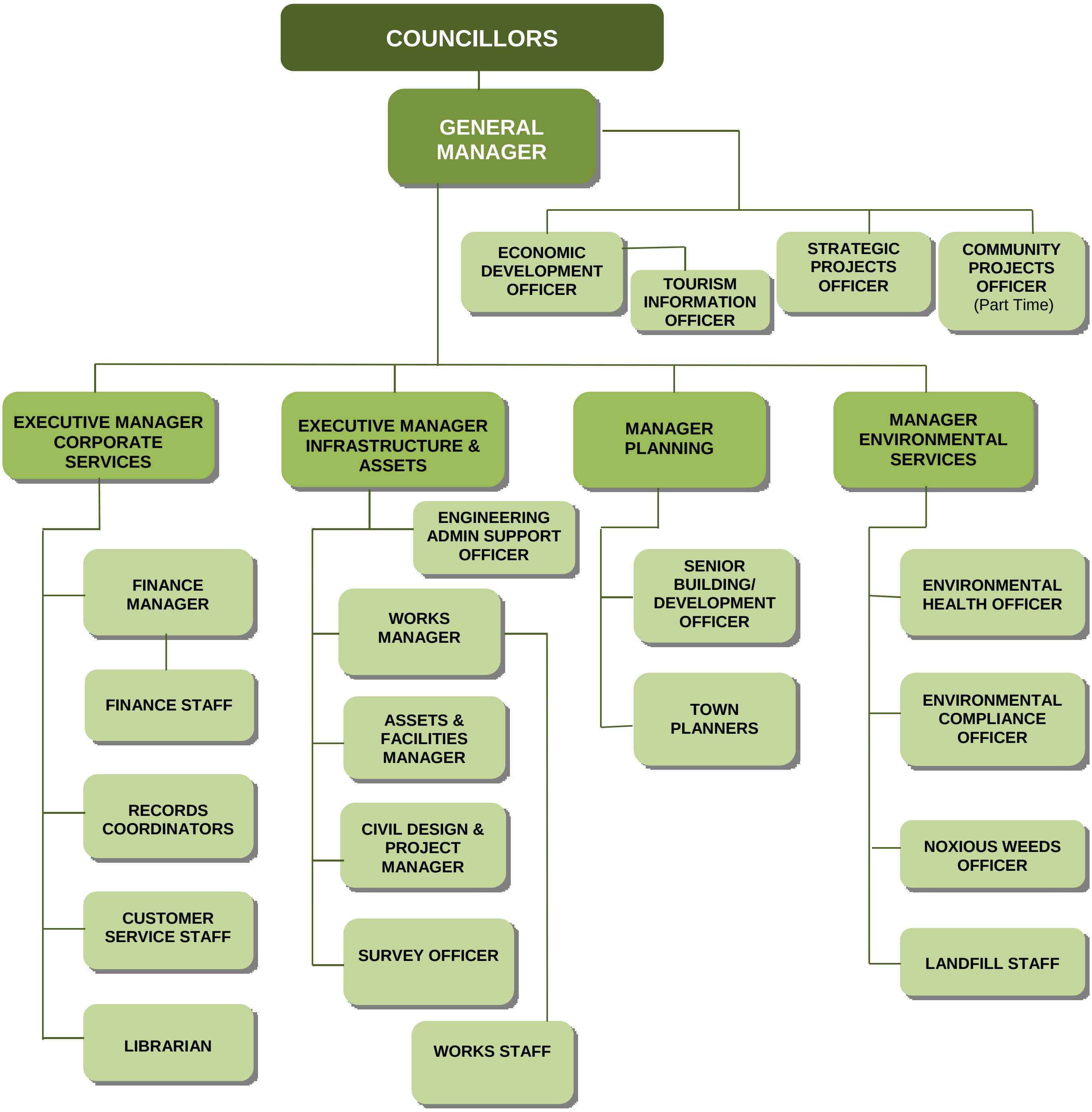
The table below records the voluntary staff turnover rate (the total number of voluntary staff separations as a proportion of all full and part time positions). Staff turnover in 2015/2016 was higher than in previous years and can be attributed to the employment uncertainty following the announcement (in December 2015) of a proposed merger of Dungog Shire Council with Gloucester Shire Council (which ultimately did not proceed). In 'normal' circumstances the staff turnover rate for Dungog Shire Council is generally less than the NSW council average.

	2011/2012	2013/2014	2015/2016
Dungog	8.2%	6.1%	16.1%
NSW council average	9.7%	8.1%	9.9%

Employment costs

The employee cost rate shows employee costs as a proportion of all operating expenses. Council's proportion of operating expenses attributed to employee costs has decreased from 29.1% in 2013/2014 to 25.9% 2017/2018. In comparison with other Group 10 councils which average 32.37%, our employee costs make up a significantly smaller proportion of total expenditures.

Organisation Structure



Our Future Workforce

While Council's existing workforce is in a reasonable position to be able to meet its operational requirements over the short term, there are a number of areas which will require additional workforce investment over the next four years if Council is to be able to deliver on the priorities within its Delivery Program and complete its transition to a financially sustainable Council by 2027.

Council will also need to maintain its focus on improving its employment related policies and conditions to meet the challenging internal and external workforce market pressures of the future to ensure that it can continue to attract and retain a workforce that can deliver the array of services that is expected by our residents, customers and stakeholders. The key workplace and employment strategies that we pursue will be to:

- foster and embed a culture of high organisational and individual performance
- build a capable and professional workforce that is agile, innovative and resilient
- develop leadership capabilities for managers
- introduce and utilise technology solutions to achieve greater efficiencies
- deliver learning and development opportunities that provides skills based and career focused progression and learning
- enhance workforce data and metrics to improve planning and performance
- maintain a safe workplace environment through best practice safe systems of work.

Our Workforce Strategy

This Workforce Management Plan provides Council and the Community with a roadmap to manage its workforce. Council faces the challenges of retaining and attracting suitably qualified employees within a tight labour market while managing the demographic realities of an ageing workforce.

At the same time, public expectations around timely, lean and quality service delivery place increasing demands on our workforce to go about their business in ever more efficient and innovative ways.

This Plan is designed to enable ongoing professional development and bring staff into the organisation with the right skill sets and to identify strategies to manage the human resources within Council. Our major challenge is how to build a capable and resilient workforce that is able to face the demands of a constantly changing environment.

Dungog Shire Council recognises that the stability of an organisation has an impact on the ability to attract and retain staff. Council acknowledges that in recent times external factors have created uncertainty in our working environment.

Due to our size and limited resources Council realise that as an organisation we are more vulnerable to impacts of decisions beyond our control; they have a greater impact on our workforce and the environment in which it operates.

The following strategies are designed to create a more certain and stable working environment and to deliver on the relevant strategies in the CSP.

CSP Strategy – 7. Governance and Finance

- We will strengthen our financial position and invest in our people, systems and governance to firmly establish Dungog Shire Council as an efficient and effective service organisation.

- Review of Council's Workforce Management Plan to ensure Council has the right employees, with the right skills, to deliver the services required by the community, both now and in the future in accordance with the Dungog Shire Council Delivery Program 2018-2022.

Workforce Challenges

Dungog Shire Council recognises that the stability of an organisation has an impact on the ability to attract and retain staff. Council acknowledges that in recent times external factors have created uncertainty in our working environment.

Due to our size and limited resources we realise that we are more vulnerable to impacts of decisions beyond our control; they have a greater impact on our workforce and the environment in which it operates.

The following strategies are designed to create a more certain and stable working environment.

Key Focus Area	Four year actions	Responsibility	Time Frame
Ageing workforce	Investigate flexible work arrangements including part time, job sharing. Transition to retirement plans Formalise learning opportunities Investigate succession planning Increase opportunities job rotation Formalise HR/WHS induction process	• Manex • Human Resources • Managers	2019/2020 Ongoing Ongoing Ongoing Ongoing 2018/2019
Ongoing learning and development	Allocate sufficient budget resources Access Hunter JO council for combined training opportunities Access grant opportunities for training Increase opportunities for on the job training Cross training MOU with Hunter JO councils for support in times of crisis	• Managers • Human Resources • General Manager	2019/2020 Ongoing Ongoing Ongoing Ongoing 2019/2020
Attracting and retaining staff	Review recruitment policy to enable council to be flexible and responsive to changing circumstances Increase opportunities for job rotation Build up talent pool	• Manex • Human Resources • Managers	2019/2020 Ongoing Ongoing
Need for work life balance	Draft flexible work policy Survey staff to explore suggestions for improved balance	Human Resources	2019/2020 Ongoing
Maximising new technology	Investigate opportunities for the introduction of mobile devices for field/outdoor staff Access funding opportunities for digital learning programs	Information Technology Human Resources	2018/2019 Ongoing
Ongoing staff communication and consultation	Explore opportunities for intranet Hold regular team meetings and tool box talks Investigate delivery of a staff newsletter	• Information Technology • Managers Supervisors • Human Resources	2019/2020 Ongoing 2018/2019

Implementing the Workforce Management Plan

The responsibility for implementing Council's Business planning documents including the Workforce Management Plan is the responsibility of all levels within Council:

- the Mayor and Councillors delegate responsibilities to the General Manager and the Executive Management team (Manex) to develop and oversee the implementation of the Community Strategic Plan, Resourcing Strategy and Delivery Program in accordance with the legislation and guidelines as well as leading community engagement
- the General Manager is responsible for overseeing the preparation of Council's Business Planning Framework and reporting progress and performance regularly
- the Executive Management team is responsible for ensuring the key focus areas and related strategies are agreed and resourced

- managers and staff are responsible for supporting the Executive Team in implementing the Community Strategic Plan, Delivery Program, annual Operational Plans and the individual components of the Resourcing Strategy.

Council is committed to consulting with staff when developing and refining the workforce structure as it is recognised it is beneficial to the change management process required to drive any significant changes and improve ownership of the Workforce Management Plan.

Monitoring and Reporting Our Progress

What will be reported	To who	Frequency	Responsible
Staff Turnover/Recruitment	Manex	Quarterly	Human Resources
Unplanned Absence	Manex	Quarterly	Human Resources
Overtime Hours rate	General Manager	Quarterly	Finance
Lost Time Injury/Accidents	Manex	Quarterly	Managers
Number of complaints against staff	Manex	Quarterly	Human Resources
Workforce Profile	Manex	Annual	Human Resources
Performance Review completion rate	Manex	Annual	Human Resources
Learning and Development Investment	Manex	Annual	Human Resources
Employee Cost rate	Manex	Annual	Human Resources
Employee Productivity rate	Manex	Annual	Human Resources
Staff Engagement Survey	Manex	Annual	Human Resources

Review Process

Over time the workforce will present new or different challenges for the organisation. A review of the Workforce Management Plan will be undertaken annually. This review process will consider whether the key themes and strategies remain current or if new issues or strategies need to be added to the Workforce Strategy over the four year period of operation.

ASSET PLANNING

Executive Summary

Council has care and control of a large portfolio of community infrastructure assets, including roads, bridges, storm water drainage, buildings, community facilities, sporting fields, playgrounds, recreation facilities, parks and nature reserves. These assets have a gross replacement value of approximately $470 million as at 30 June 2018. Infrastructure assets provide Dungog Shire's residents, businesses and visitors the services and amenity to meet their social, economic and cultural needs.

As a custodian of these assets, under the Local Government Act, Council has the responsibility to effectively account for and manage community assets in the most cost effective manner and ensure the provision of efficient, safe and reliable services for current and future users.

This document is based on the Office of Local Government's (OLG) Integrated Planning and Reporting (IP&R) Manual for local government in NSW, and the International Infrastructure Management Manual (IIMM2015). Following the IP&R Guideline, this document presents council's asset management situation, sets out asset management goals and identifies specific strategies and plans to deliver infrastructure services in a sustainable manner.

Asset Management Position

Council has taken a number of actions to improve its asset management capability. It has adopted a corporate approach to asset management planning, is undertaking asset management gap analysis, developing strategies and implementing programs to improve asset management.

Tasks completed and/or currently in progress are:

- a corporate-wide asset management system to be implemented
- review of the Asset Management Policy and Strategy
- a Customer Request Management System review, which effectively records issues with assets, as identified by the community
- an Asset Works Management System implemented, including mobility solutions
- Community Satisfaction Surveys are carried out to measure community satisfaction with asset service levels
- community consultation on expected levels of service conducted between February and July 2018
- Asset Management Plans prepared for infrastructure assets.

The outcome from the community consultation conducted between February and July 2018 indicated that residents would like to see an improvement in service levels and increased investment in assets. The community expects assets to be at either a Very Good, Good or Fair condition and require further action to remediate assets in a Poor or Very Poor condition.

Asset Management Goal

Council's overarching goal is to provide a service level that is technically appropriate, meets the community's expectations and is financially sustainable. Council also aims to ensure that the community's infrastructure continues to meet the service needs of current users without compromising the service potential and needs of future generations.

One of the key requirements to achieve this goal is to improve asset management knowledge and systems and put in place appropriate processes and procedures. In addition, Asset Management Planning (AMP) aims to forecast funding required in delivering the desired service level.
In order to improve asset management, Council will specifically aim to:

- implement a plan for managing infrastructure assets to support the delivery of the Community Strategic Plan (CSP) and Delivery Programs (DP)
- identify critical assets and implement appropriate risk management strategies
- have Asset Management Plans with identified asset service levels, risk management and long term expenditure projections
- use modern technology, including mobility and Spatial Information Systems (SIS) to manage works and evaluate risk.

Summary of Asset Management Expenditure Forecasts

The asset management expenditure forecasts outlined below relate to roads, buildings and parks asset categories.

Two asset management funding scenarios were analysed, covering a ten (10) year planning period. Scenario 1 (S1) shows the forward projections included in the LTFP, based on the Base Case Model and Scenario 2 (S2) shows the forward projections included in the LTFP, based on the Improvement Plan. The Improvement Plan either meets or is trending towards meeting all required FFTF asset benchmarks, and is based on additional revenue obtained from a SRV to fund a borrowing program to bring forward and increase asset renewal to the levels required. The difference in funding levels between the two scenarios for each asset category and its implication on assets and service levels is shown below and further detailed in the LTFP earlier in this document.

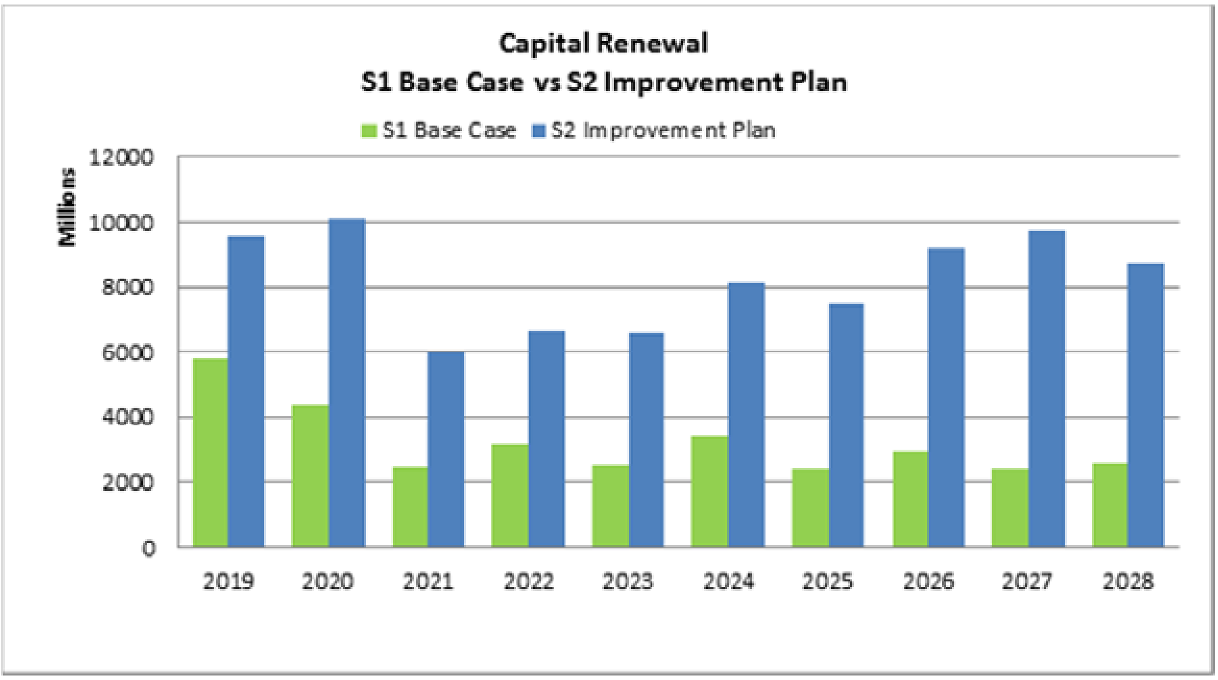
Summary of Capital Renewal Expenditure Forecasts

- Scenario 1 Base Case: shows an average of $3.2 million per year spent on capital infrastructure renewal, resulting in an infrastructure backlog ratio increasing to 17% in 2027/2028.

- Scenario 2 Improvement Plan: shows an average of $8 million per year spent on capital infrastructure renewal, resulting in an infrastructure backlog ratio reducing to 2.6% in 2027/2028.

- On average an additional $4.8 million per year of renewal can be funded in Scenario 2 by the application of a SRV and a proposed borrowing program.

The difference between Capital renewal expenditure, comparing Scenario 1 Base Case to Scenario 2 Improvement Plan is illustrated in the figure below:



Required Maintenance and Operations Expenditure Forecasts

The level of operating costs incurred to operate and maintain infrastructure assets is highly dependent upon the level of investment in renewal works. The greater the investment in renewal, the lower the required maintenance and operations expenditure.

There is no change to maintenance and operations expenditure under Scenario 1 Base Case, assets will continue to deteriorate and the infrastructure backlog will continue to grow. Scenario 2 Improvement Plan will provide an additional $450,000 per annum increasing annually, this would reduce the gap between required annual maintenance and funded annual maintenance by 25%.

Introduction

Council has care and control of a large portfolio of community infrastructure assets, including roads, bridges storm water drainage, buildings, community facilities, sporting fields, playgrounds, recreation facilities, parks and nature reserves. These assets have a gross replacement value of approximately $470 million at 30 June 2018. Infrastructure assets provide Dungog Shire's residents, businesses and visitors the services and amenity to meet their social, economic and cultural needs.

As a custodian of these assets, under the Local Government Act, Council has the responsibility to effectively account for and manage community assets in the most cost effective manner and ensure the provision of efficient, safe and reliable services for current and future users.

Council is putting in place asset management systems and processes to operate, maintain and renew infrastructure assets to ensure that this infrastructure continues to provide the level of service, as expected by our community. The AMP is also designed to meet the OLG IP&R legislative requirements for sustainable management of infrastructure assets.

Asset Management Planning (AMP)

The AMP process aims to facilitate understanding of asset management principles and processes and to foster stronger Council-Community partnerships in achieving the goals and outcomes, as identified by the CSP, through delivery of agreed service levels.

The AMP is a comprehensive process to ensure delivery of services from infrastructure is provided in a financially sustainable manner {Source: IPWEA, NAMS.PLUS2, 2012, A Guided Pathway to Sustainable Asset Management).

AMP commences with:

- defining stakeholder and legal requirements and needs
- incorporating these needs into the Council's strategic plan
- developing an asset management policy, strategy, plans and operational plans
- linking the asset management planning to the LTFP.

Community Strategic Plan

Council has adopted the Dungog Shire Council Community Strategic Plan 2030 (CSP). The CSP outlines the key community's aspirations and sets essential direction and goals for future Council activities. The CSP has set seven key focus areas with associated high level directions and goals for Council activities. The CSP is available for viewing on Council's web site www.dungog.nsw.gov.au

Asset Management Policy

The policy provides a clear direction for asset management and defines key principles that underpin asset management for the Council. Council adopted the updated asset management policy on 21 November 2018. The policy is available for viewing on Council's website: www.dungog.nsw.gov.au

Asset Management Strategy

Council's asset management strategy outlines principal strategies and actions that Council intends to apply in order to deliver the service needs of the community outlined in the CSP.

The asset management strategy is to enable Council to show how its asset portfolio will meet service delivery needs of its community into the future, it will enable Council's asset management policies to be achieved and it will ensure the integration of Council's asset management with its long term strategic plan.

The strategy provides an analysis of the current asset management situation and establishes desired practice, goals and outlines specific improvement actions to achieve these desired outcomes.

Asset Management Plan

Asset management plans are long-term plans that detail information about infrastructure assets and actions required to provide desired levels of service in the most cost effective manner.

An asset management plan documents:
- the services and service levels to be provided
- how the services are provided
- what funds are required to provide these services.

Source: IPWEA, NAMS.PLUS2, 2012, a guided pathway to sustainable asset management

Council has prepared the following infrastructure asset management plans:
- roads and transport
- buildings
- parks and recreation
- urban stormwater drainage and flood protection.

The asset management plans are refined when new data becomes available. Council's asset management plans are available for viewing on Council's web site www.dungog.nsw.gov.au

Asset Management Information and Expenditure Forecast

Councils Infrastructure Assets

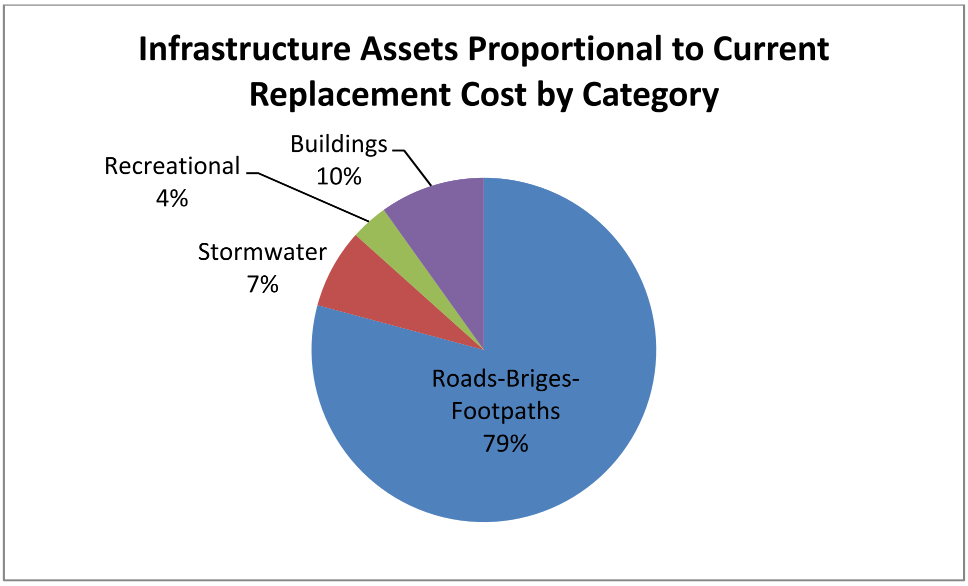
The table below presents infrastructure categories, services relevant to this infrastructure and description of infrastructure asset types:

Infrastructure Asset Categories	Service Area	Description of Infrastructure Asset Type
Roads and Transport	Roads, bicycle and pedestrian paths facilitate movement of goods, commuting to work, access to businesses and social and recreational needs.	Land under all categories of roads, sealed and unsealed road pavements, kerb and gutters, bridges, major culverts, paved footpaths and cycle ways, car parking areas, street furniture, signage, road markings, traffic control facilities, roadside safety barriers, and bus shelters.
Buildings	Buildings and facilities for community services, operational, social and recreational use.	Land under buildings, public halls, libraries, community halls, child care centres, senior citizens centre, museum, public toilets and amenities blocks, Council offices, work depots, pavilions, grand stand, shelters, investment properties, swimming pool buildings, emergency services facilities, other building associated assets such as electrical, mechanical, security, emergency, furniture and fittings.
Parks and Recreation	Active and passive recreation, sporting and leisure activities.	Community land, horticulture, arboriculture, minor structures, sporting grounds/ovals, swimming pools, play equipment, flood lights, irrigation, cemeteries, skate parks, tennis and netball courts , park furniture, street trees, walking trails/paths, boat ramps, lookouts and fences.
Urban Stormwater Drainage and Flood Protection	Stormwater drainage system for road and pedestrian safety, to mitigate infrastructure and property flooding and water quality improvement.	Pipes, culverts, pits, headwalls, erosion protection, Gross Pollutant Traps, wetlands and ponds, open detention basins, swales and channels, and other flood protection structures.

Asset Inventory and Replacement Values

Council controlled infrastructure assets have a current replacement value of approximately $470 million.

The figure below shows the proportion of current asset replacement value by asset categories.



Asset Sustainability

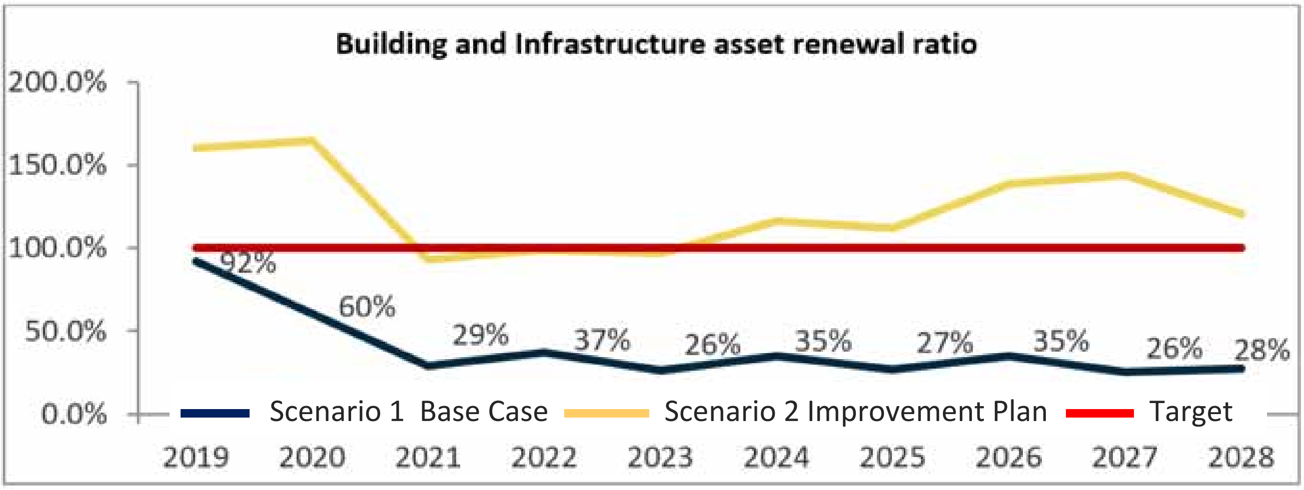
A ratio of current life cycle expenditure (LCE) to asset lifecycle costs (LCC) provides an indication of asset sustainability and is demonstrated by the Building and Infrastructure Asset Renewal Ratio. A funding gap between LCC and LCE gives an initial indication as to whether present consumers are paying their share of the assets they are consuming each year. One of the main purposes of Asset Management Planning (AMP) is to identify levels of service that the community needs and can afford and develop the necessary long-term financial plan to provide the service in a sustainable manner.

A life cycle sustainability ratio of 1.0 (100%) indicates that the current funding provided is equal to the required lifecycle funding estimate. A sustainability ratio of less than 1.0 (100%) indicates a funding gap.

The LCC does not indicate the funds required to provide the service in a particular year. Generally LCE to LCC ratio is assessed to give an initial indication of LC sustainability.

It is worth noting that the Building and Infrastructure asset renewal ratio (sustainability index) shown below indicates a negative outlook under Scenario 1 Base Case but shows a positive outlook under Scenario 2 Improvement Plan. However, in asset terms, there is a significant backlog in road renewal works and the state of the current road condition does not meet the desired service standard.

In recent years, Council has made adjustments in the road asset depreciation estimate. The current depreciation figure may not reflect the asset condition and the actual consumption. The resourcing strategy approach to road assets would benefit from more detailed investigations to balance depreciation estimates and actual asset consumption.



Assets Data

The table below shows the current level of infrastructure assets data coverage and level of confidence.

Asset Class	Data Coverage	Data Confidence
Road and Transport	Fair	Fair
Buildings	Good	Good
Parks and Recreation	Fair	Fair
Urban Stormwater Drainage and Flood Protection	Fair	Fair

Good condition data is available for sealed road pavements. A focussed sample condition survey of storm water network was carried out in 2015 to ascertain network condition. This condition has been extrapolated and replicated to the entire network. About 50% of parks asset data has been collected.

Capturing asset information and condition data is an ongoing process. Asset data is collected over a period of time utilising a combination of internal and external resources. The robustness of the asset data will generally determine the quality and reliability of AMP projections.

The asset management plan for each asset category (available on Council's web site www.dungog.nsw.gov.au) presents the key asset related information for these infrastructure assets. Where asset condition data was not available, condition has been derived based on an estimate of asset age and remaining useful life. The individual asset management plans elaborate and detail assumptions made in estimating asset conditions.

Levels of Service and Community Satisfaction

Between February and July 2018, Council conducted 15 community meetings/briefings throughout the shire to ask residents about their level of satisfaction with current service levels and their priorities for future investment. The outcome of these consultations indicated that residents would like to see an improvement in service levels and increased investment in assets.

Financial Summary

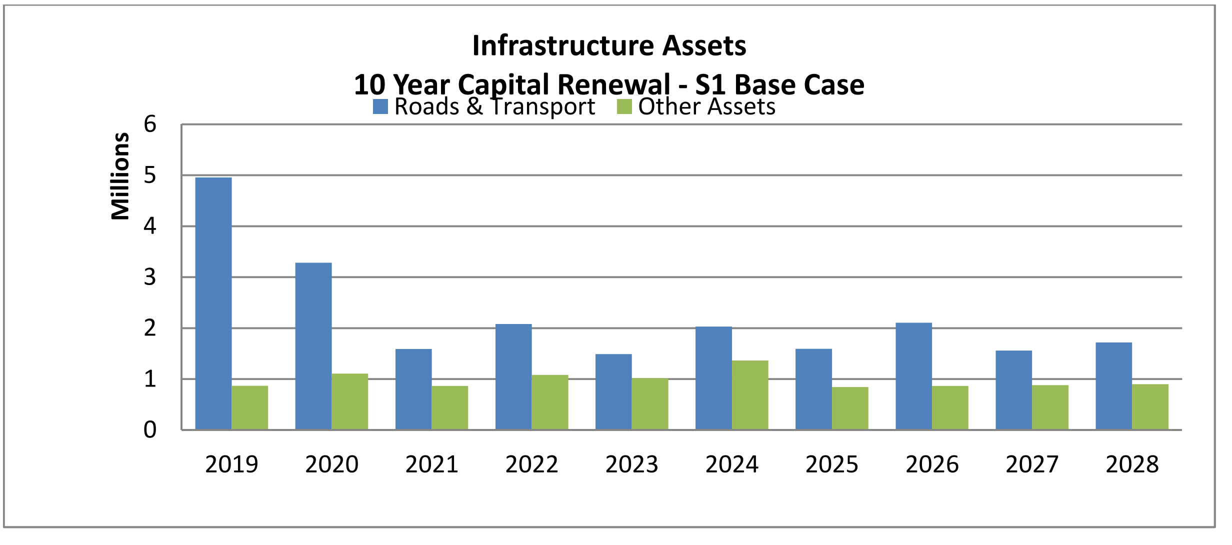
Council categorises asset management expenditure into operations (operations and maintenance) and capital (renewal and upgrade/new works). One of the key outcomes of the Asset Management Planning (AMP) is a long term expenditure forecast for asset operations and renewals and present analysis of potential funding shortfall and its implication on service levels and asset condition.

Two asset management funding scenarios were analysed, covering a ten (10) year planning period. Scenario 1 Base Case (S1) shows the forward projections included in the LTFP and Scenario 2 Improvement Plan (S2) shows the forward projections included in the LTFP, based on the Improvement Plan. The Improvement Plan has Council meeting or trending towards meeting all required FFTF asset benchmarks, and is based on additional revenue obtained from a SRV to fund a borrowings program to bring forward and increase asset renewal, to the levels required.

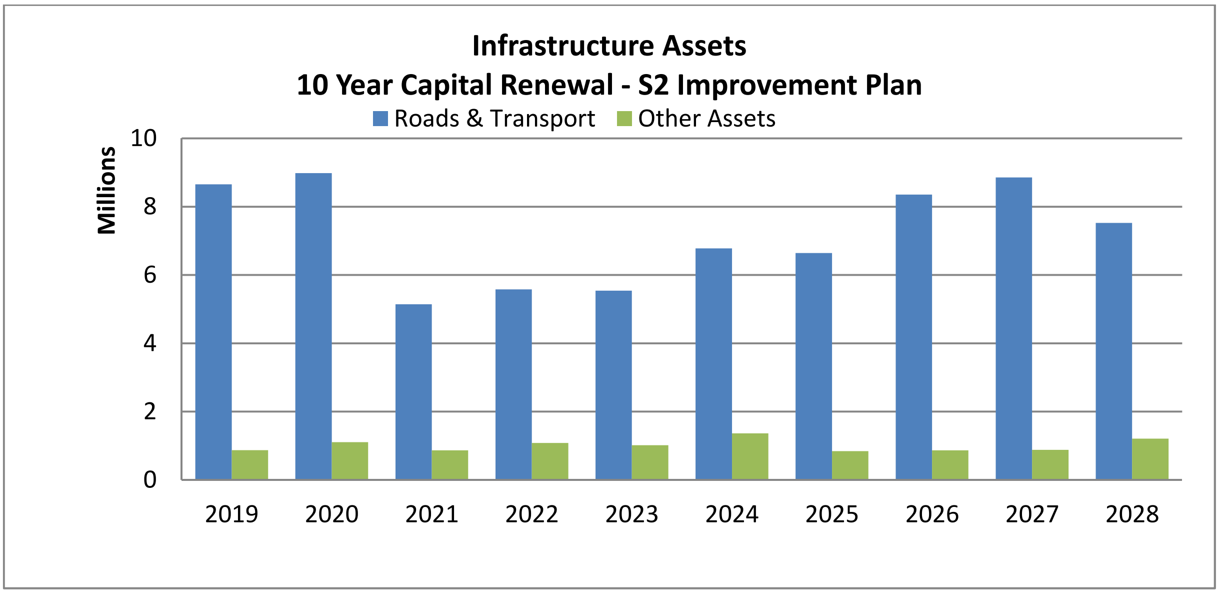
Summaries of the forward projections and the associated impacts of the two scenarios are discussed in the following section.

Summary Capital Renewal Expenditure Forecast

Scenario 1 Base Case: Capital renewal expenditure forecast based on current budget (Base Case model) is shown below.



Scenario 2 Improvement Plan: Capital renewal expenditure forecast based on current budget (Improvement Plan model) is shown below.



In summary, the difference between Scenario 1 and Scenario 2 are:

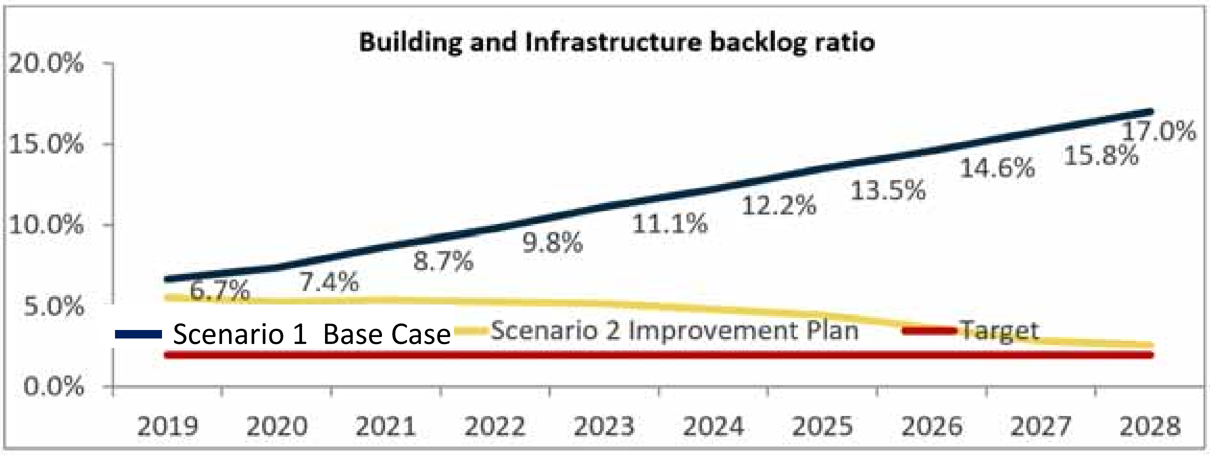
- Scenario 1 Base Case: the infrastructure backlog grows over the life of the planning period, reaching 17% by 2027/2028. At that time, Council will only be funding the renewal of community infrastructure at a rate of 28% per annum, causing a continuous cycle of further deterioration.

- Scenario 2 Improvement Plan: the infrastructure backlog reduces over the life of the planning period, reaching 2.6% by 2027/2028.

- In Scenario 2 Improvement Plan an additional $4.8 million on average per year of renewal can be funded by a SRV and incorporating the proposed borrowing program.

There are two main outcomes derived from additional capital renewal, being a reduction in the required maintenance, based on technical information, and a reduction in the infrastructure backlog.

The infrastructure backlog represents the amount required to invest in an asset to bring it to a condition considered satisfactory by the community. The resulting backlog in each year, based on both scenarios is shown below.



It should be noted that if renewal figures remain below the average of that required over a ten (10) year period, the asset condition is likely to deteriorate and will require more and frequent maintenance and increased cost in renewal to bring the asset to a satisfactory condition.

Forecast Potential Expenditure Gap

Increased maintenance and operations for roads and bridges, in line with community priorities, as identified during community consultation between February and July 2018 is possible - provided a SRV is approved.

The required maintenance and operations expenditure as a result of the level of renewal included in both Scenarios is summarised below.

- Scenario 1 Base Case: provides no increase in funding to maintain assets. There is a funding shortfall of approximately $1.7 million for the required infrastructure asset maintenance expense.

- Scenario 2 Improvement Plan: there is an increase to the infrastructure maintenance budget to reduce the gap between required annual maintenance and funded annual maintenance by 25%.

- A saving of $451,000 in the first year alone is possible with the additional renewal included in Scenario 2 Improvement Plan.

Required maintenance is the level of expenditure required to keep an asset operating within a satisfactory condition that does not extend the life of the asset. The level of maintenance expenditure needed to deliver services is influenced by asset age, condition, usage and the inherit risk of the associated usage.

The projected required spend in Scenario 2 above, is based on increased investment in asset renewal, via a borrowings program, funded by a SRV. With improved asset condition due to renewal, required maintenance expenditure is projected to decline from 2021 onwards.

Key Issues and Challenges

Following are key challenges facing Council in providing sustainable infrastructure service in the long term:

a) continue to capture accurate infrastructure asset information such as condition, remaining useful life, utilisation and performance data
b) continue to improve on asset lifecycle cost models for a range of service levels
c) optimise asset renewal cycle to maximise return on asset renewals and maintenance investments
d) manage community expectation by engaging the community in setting appropriate and affordable levels of service
e) ensure that assets are maintained and provide intended service for current and future users
f) account and plan for all existing infrastructure assets and any new assets solutions proposed in the CSP
g) establish a robust asset management strategy, policy, systems and processes to progress asset management in an organised manner
h) identify opportunities for the disposal of excess or under-utilised assets
i) identify cost effective asset maintenance and renewal strategies
j) investigate options for additional funding for sustainable asset management and service delivery.

ANNEXURE 1:

TO

LONG TERM FINANCIAL PLAN

Assessment of Capacity to Pay

Dungog Shire Council

December 2018

Document status

Ref	Approving Director	Date
7355	G Smith	Dec 2018

Contents

Introduction

Dungog Shire Council has recently undertaken a review of their financial sustainability and has found that:

- the health of its overall asset network is diminishing
- Council is unable to meet its financial performance indicators by continuing its current operations
- its current revenue base (excluding capital) is very low.

In order to address this, Council is seeking approval from IPART for a Special Rate Variation (SRV) which would involve a cumulative rate increase of 98% over a seven year period (inclusive of an assumed 2.5% p.a. rate peg).

Council is proposing the following rate increases:

Year	1	2	3	4	5	6	7
SRV	15%	15%	10%	10%	10%	6%	6%

Council has expressed concerns regarding the affordability of such an increase and would like to investigate whether the community has the capacity and willingness to pay for the SRV.

Methodology

This report assesses whether the Dungog Shire (LGA) community is potentially able and willing to pay for a proposed SRV by investigating the following:

- **Dungog Shire's Economic Profile and Growth**

  We will first look into the economic profile and growth trends for the Dungog Shire LGA by assessing 2016 and 2017 REMPLAN data.

- **Rates Comparison**

  In this section we will explore previous successful SRV applications (particularly those received by Group 10 councils) and then go on to compare Council's current residential, business, agricultural and mining rates to that of the other councils. These findings will then be used as a reference point throughout the remainder of the report.

- **Capacity to Pay**

  We will next investigate the community's capacity to pay for the increase in rates. This will be determined by comparing the relative wealth and socio-economic characteristics of the Group 10 councils, with a particular focus on those that have successfully applied for an SRV, as well as by investigating potential impacts on regional households' disposable income.

- **Willingness to Pay**

  We will then investigate the Dungog Shire community's willingness to pay for their current levels of service. This will be explored through indicators such as private health ownership and mortgage security levels.

Dungog Shire Economic Profile and Growth

The local government area of Dungog Shire is classified as a Large Rural Agricultural Council (Group 10), and is located centrally within the Hunter. As can be seen in the table below, the primary industry is agriculture and the gross regional product (GRP) for the area is $371 million which has on average had a real annual growth rate of 2.98% over the last 3 years.

Table 1 Dungog Shire Business Types – Source REMPLAN

Business Count	Count	%
Agriculture, Forestry and Fishing	418	40.82%
Construction	162	15.82%
Other	89	8.69%
Professional, Scientific and Technical Services	52	5.08%
Transport, Postal and Warehousing	39	3.81%
Accommodation and Food Services	38	3.71%
Other Services	38	3.71%
Manufacturing	35	3.42%
Retail Trade	29	2.83%
Wholesale Trade	26	2.54%
Administrative and Support Services	24	2.34%
Health Care and Social Assistance	24	2.34%
Rental, Hiring and Real Estate Services	17	1.66%
Education and Training	13	1.27%
Financial and Insurance Services	7	0.68%
Information Media and Telecommunications	4	0.39%
Electricity, Gas, Water and Waste Services	3	0.29%
Public Administration and Safety	3	0.29%
Arts and Recreation Services	2	0.20%
Mining	1	0.10%
Total	1,024	100.00%

Economic REMPLAN data was then assessed to identify the changes in growth trends for the region. By identifying the growth patterns for the region we are able to predict the future wealth and welfare of the community.

The databases that were used were:

- 2016 – This data was based on projections from 2011 Australian Bureau of Statistics (ABS) census. *(2016 projections over-estimated the population growth and size of the labour force in the region, these figures were proportionally scaled to allow for comparability between the two data sets*)
- 2017 – This data was based on the latest 2016 ABS census.

Industry and Income Projections

The table below identifies the following:

- Number of jobs per industry sector – this includes the 2016 projections, 2017 actuals and the changes between the two data sets
- The total wages paid in 2017 for each industry sector
- Average annual income – this was calculated by dividing total wages by the equivalent number of 2017 jobs.

Table 2 Dungog Shire Jobs and Wages Trends

Industry Sector	Yr16	Yr17	Δ	Total Wages ($M)	Average Annual Income ($)	Salary Rank
Construction	363	445	82	17.51	39,345.64	9
Health Care and Social Assistance	389	414	25	15.02	36,291.11	12
Agriculture, Forestry and Fishing	390	394	4	10.12	25,695.74	15
Retail Trade	347	328	-19	8.93	27,227.95	13
Education and Training	285	295	10	24.31	82,421.92	1
Professional, Scientific and Technical Services	180	223	43	11.63	52,142.48	7
Accommodation and Food Services	237	203	-34	7.89	38,859.29	11
Manufacturing	317	200	-117	4.42	22,096.82	17
Public Administration and Safety	186	198	12	13.78	69,588.03	2
Transport, Postal and Warehousing	207	193	-14	7.57	39,246.89	10
Other Services	159	161	2	3.90	24,194.12	16
Mining	141	149	8	1.52	10,208.90	19
Administrative and Support Services	92	115	23	6.72	58,440.79	4
Electricity, Gas, Water and Waste Services	54	70	16	4.86	69,457.56	3
Financial and Insurance Services	54	67	13	3.53	52,680.03	6
Wholesale Trade	95	60	-35	1.55	25,776.87	14
Rental, Hiring and Real Estate Services	57	40	-17	2.17	54,159.45	5
Arts and Recreation Services	20	23	3	0.42	18,084.73	18
Information Media and Telecommunications	13	7	-6	0.31	44,371.45	8

From Table 2 we can make the following observations:

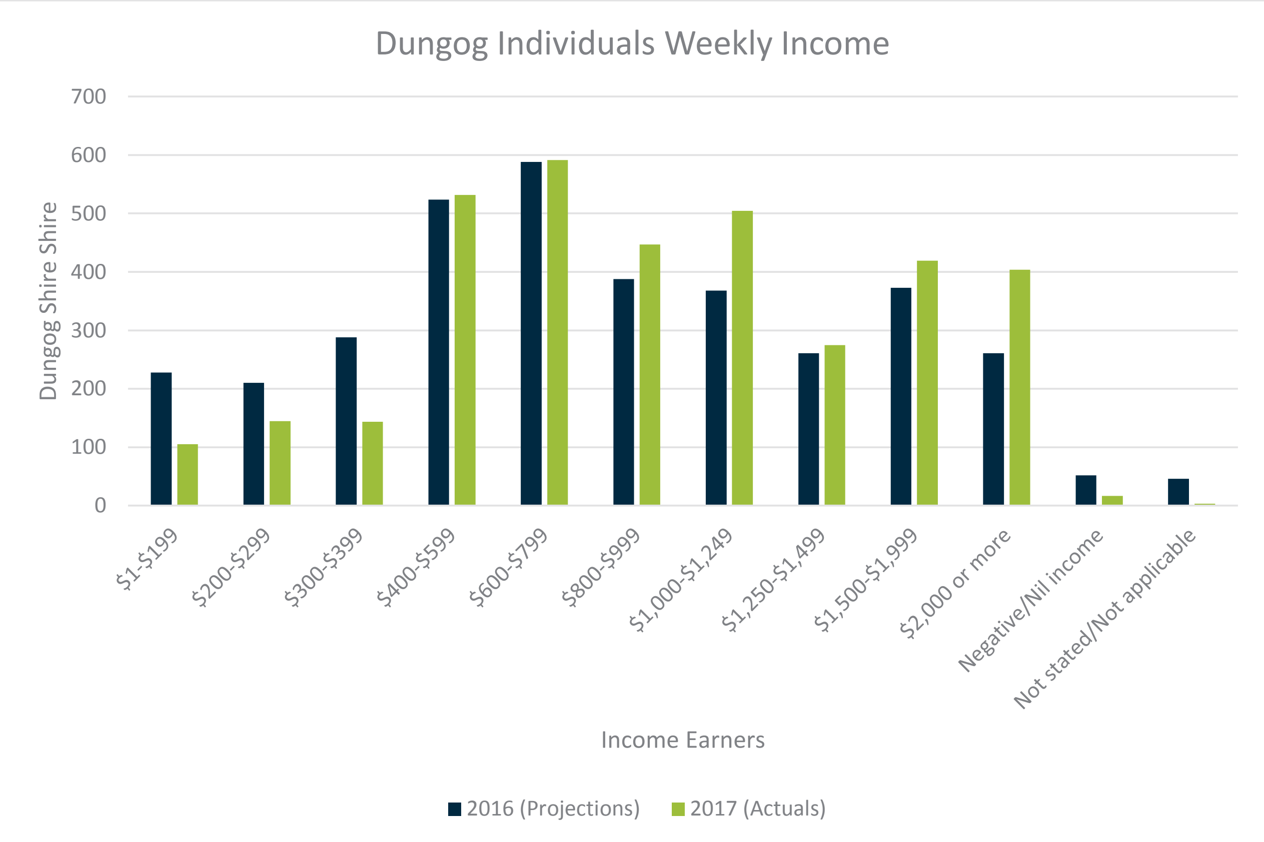
- Projections in Agriculture growth have been fairly consistent and it remains a significant employer in the region
- There has been a significant increase in the construction industry and a significant decrease in the manufacturing industry
- Health Care and Professional Services have both seen moderate increases
- Hospitality and Wholesale Trade industries have both seen moderate decreases.

From the observations above, we can see that alongside the primary industry agriculture, there has been a shift towards higher skilled industries. Correspondingly we can see that the higher skilled industries have higher ranked annual incomes resulting in greater levels of wealth in the region.

- Construction (9), Professional and Technical Services (7)
- Manufacturing (17), Whole Sale Trade (14)

This shift has also been reflected in REMPLANS Individual Weekly Income in Table 3 below.

Figure 1 Dungog Shire Weekly Income Projections vs Actuals – Source REMPLAN



We can see that there has been a noticeable shift towards higher income brackets resulting in increased wealth within the region.

Profile of Pensioners

The following table provides information on the number and percentage of pensioners and those over 65 years of age as a portion of the total Council area population. There is not a direct correlation between the two and in all cases there are fewer pensioners.

Table 3 **Profile of Pensioners for Group 10 Councils**

Councils	Population	Age Pensions no.	No. Pension / Population	% Pop over 65
Berrigan	8,572	1,687	20%	28%
Bland	6,031	807	13%	21%
Blayney	7,418	892	12%	18%
Cobar	4,764	440	9%	13%
Dungog Shire	9,114	1,153	13%	19%
Edward River	8,951	1,222	14%	22%
Forbes	9,808	1,447	15%	21%
Glen Innes Severn	8,942	1,601	18%	25%
Gwydir	5,326	920	17%	25%
Junee	6,462	665	10%	15%
Kyogle	9,072	1,431	16%	22%
Lachlan	6,352	827	13%	20%
Liverpool Plains	7,874	1,180	15%	21%
Narrandera	5,976	907	15%	21%
Narromine	6,599	889	13%	20%
Oberon	5,399	695	13%	21%
Temora	6,236	1,034	17%	23%
Tenterfield	6,667	1,299	19%	26%
Upper Lachlan	7,841	1,064	14%	22%
Uralla	6,159	882	14%	20%
Walgett	6,369	918	14%	18%
Warrumbungle	9,541	1,697	18%	25%
Wentworth	6,920	923	13%	19%
Average			**15%**	**21%**

For Dungog Shire the number of pensions as a percentage of population is in the bottom 20% of the group, with 13% of the population pensioners. Dungog Shire has a younger population than the average of the group with only 19% over the age of 65.

Rates Comparison

Council rates are taxes levied on property owners, are calculated on the basis of land value, and are one of the four primary sources of revenue for NSW Councils. These rates are subject to pegging legislation, whereby the amount of revenue councils can raise is capped by the Independent Pricing and Regulatory Tribunal (IPART). However, it is often the case that these rates are not equivalent to real increases in the Council's cost of wages, regulatory requirements, and utilities, and as such most councils have applied for an SRV within the last six years. Since 2013 there have been 106 successful SRV applications, 11 of which have come from Group 10 councils. Throughout this report, we will place particular focus on these councils and how they compare with Dungog Shire.

Table 4 Group 10 SRV History – Source IPART

Councils	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Berrigan							
Bland							
Blayney		4.69%	5.11%				
Cobar							
Dungog Shire							
Edward River							
Forbes							
Glen Innes Severn		11.21%	10.02%	5.59%			
Gwydir			15.00%	30.00%			
Junee	10.00%	11.90%	9.50%	9.00%			
Kyogle			12.43%	5.43%	5.43%	5.44%	5.44%
Lachlan				6.80%	7.40%	7.40%	7.40%
Liverpool Plains		12.50%					
Narrandera							
Narromine			5.90%	6.50%			
Oberon			6.50%	6.90%	6.95%	7.00%	7.00%
Temora							
Tenterfield		15.00%	10.00%	10.00%	10.00%		
Upper Lachlan							
Uralla							
Walgett	6.40%						
Warrumbungle							
Wentworth							

The table below details the average 'Residential, Business, Farmland and Mining' rates for all Group 10 councils. These figures were obtained from the OLG's 'Your Council' 16/17 time series data and were then pegged in accordance with IPART's 17/18 and 18/19 permissible rate increases, as well as any successful SRV applications (rate increases were assumed to be uniform across all categories and are inclusive of IPARTS permissible rate increases). Successful SRV applicants have been highlighted in blue and Dungog Shire has been highlighted in green for ease of reference.

Table 5 Ranked Group 10 Council Rates for 18/19

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

From Table 5 we can make the following observations:

- Dungog Shire's residential rate of $863 ranks 6th highest amongst group 10 councils. The average rate for the group 10 councils was $723. Furthermore, Dungog Shire also ranked 6th in terms of number of residential assessments with 3,486.
- Dungog Shire's business rate of $914 ranks 18th and is in the bottom quartile amongst Group 10 councils. The average of the group is $1,392 and is 52% higher than Dungog Shire's current rates. Dungog Shire also ranked 9th in terms of number of business assessments with 367 undertaken.

- Dungog Shire farmland rate of $2,214 ranked 13th amongst councils and well below the average of $2,590. Furthermore, Dungog Shire ranked 14th in terms of number of farmland assessments with 977 undertaken.

Overall we can see that Dungog Shire's Farmland and Business rates are low relative to the other Group 10 councils. Given the magnitude of agriculture and growth in business in the region, this represents an opportunity to increase the level of rates. Furthermore, we can see that Council's residential rates are above average (78th percentile). Despite this, Dungog Shire's rates are still less than half of the most expensive Group 10 rate and again present a valid opportunity to support rate increases. On a comparable basis Dungog Shire Council is under-charging for the level of services it currently provides.

Capacity to Pay

While understanding that there is a shortfall in Council revenue and that current service levels may be unsustainable, prior to applying for an SRV it is important to understand whether a community will be able to afford an increase in rates and whether this will have an overall detrimental effect on the region. We undertake this assessment primarily in two different ways:

1. A comparison of relative wealth indicators with other Group 10 councils, and in particular previous successful SRV applicants
2. An investigation into typical cost of living factors and their likely future trends.

Regional Wealth Comparison

The following indicators from the 2016 ABS census data were used to compare the relative wealth of Dungog Shire's community to those of other large rural councils.

- Median Household Income
- SEIFA RANK

Median Household Income

Income, and in particular the collective effect of household income, is a major factor when considering wealth and is a strong comparative tool to assess Dungog Shire's capacity to pay for an SRV. Table 7 below shows the median household income for each Group 10 council, and once again to assist with comparability, past successful SRV applicants have been highlighted in blue and Dungog Shire has been highlighted in green.

Table 6 Group 10 Councils Weekly Household Income

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

Table 7 shows that Dungog Shire has the 4th highest weekly household income amongst all Group 10 councils. Furthermore, of the successful SRV applicants only Oberon and Blayney had higher median household incomes than that of Dungog Shire.

SEIFA

The Socio-Economic Index for Areas (SEIFA) is an economic tool developed by the ABS to rank areas in Australia according to their relative socio-economic advantage and disadvantage. The primary variables used in determining the index include; income, education, employment, occupation, housing and other miscellaneous factors. For our analysis, it again serves as a strong comparative tool to determine the Dungog Shire community's relative wealth and capacity to pay.

Table 7 **Group 10 Councils SEIFA NSW RANK**

Councils	SEIFA NSW RANK	SEIFA Index
Upper Lachlan	93	998
Dungog Shire	**87**	**989**
Uralla	79	983
Bland	78	982
Blayney	66	973
Oberon	64	969
Berrigan	63	968
Temora	58	964
Wentworth	50	957
Edward River	49	957
Cobar	45	954
Forbes	42	953
Junee	33	942
Gwydir	32	941
Narromine	28	933
Narrandera	25	929
Lachlan	21	924
Glen Innes Severn	15	915
Liverpool Plains	14	914
Warrumbungle	13	913
Kyogle	12	910
Tenterfield	11	910
Walgett	3	832

Ranking 2nd amongst group 10 councils and 87th in the state, the ABS SEIFA rankings show that similar to the results of the household income Dungog Shire, relative to the other Group 10 Councils, has greater levels of wealth and socio-economic advantage within the community and as such has a greater capacity to pay for an increase in rates.

Cost of Living Factors

The cost of living can best be described as the cost of maintaining a certain standard of living. Identifying trends in future costs for the community is a key consideration in their capacity to pay for an SRV. The factors which we will investigate include:

- Inflation
- Household Stress
- Electrical and Gas prices
- Water and Sewer prices
- Petroleum prices

Inflation

Inflation is the sustained increase in the general price level of goods and services and is the baseline factor when considering the cost of living. Table 9 below shows that on average over the past five years, the price of goods has annually increased by around 1.94%. However, as we previously identified, the Dungog Shire LGA has had real growth of around 2.98% p.a. and is growing greater than the level of inflation. This implies that households and businesses are becoming overall wealthier at a rate greater than the cost of goods is increasing.

Table 8 Annual Inflation - Source ABS

Year	Annual Inflation
2017	1.90%
2016	1.30%
2015	1.50%
2014	2.50%
2013	2.50%
Average	**1.94%**

Household Stress

Housing stress is the situation whereby the cost of housing is high relative to household income. Typically this is considered 30% and is a significant factor in determining the levels of disposable income and financial resilience in communities. Of all the group 10 councils, ABS data shows that Dungog Shire's residents on average have the highest mortgage repayments ($1662) per month. Despite this, as seen in Table 10 below, very few residents were under household stress highlighting financial capacity and resilience within the Dungog Shire community.

Table 9 Dungog Shire LGA Household Financial Stress

Household Stress - Census	2016	2017
Households where mortgage repayments are less than 30% of household income	89.6 %	91.9 %
Households where rent payments are less than 30% of household income	94.6 %	93.9 %

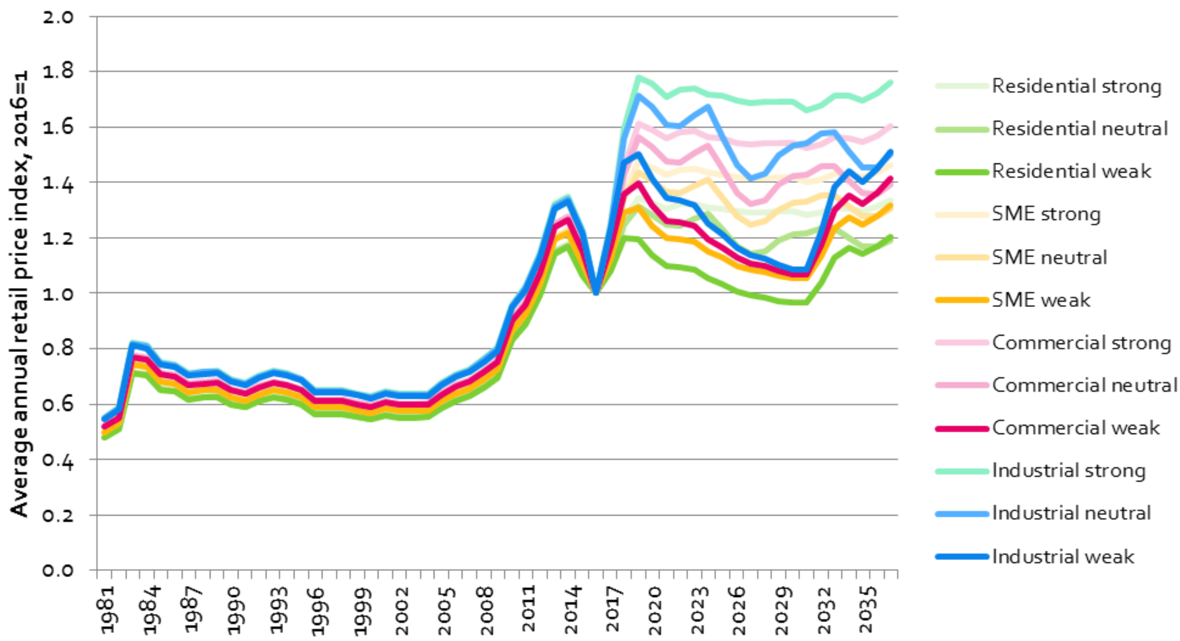
Electrical and Gas prices

A key component when considering the cost of living is the trend and direction of household utility prices. IPART has recently undertaken several reviews investigating regional electricity and gas price movements following the recent privatisation of the industries.

Their findings show that following de-regulation in 2015, the typical electricity bill has decreased for residential customers in regional areas by 4.5%. Once CPI is accounted for, this equates to a real price decrease of 13.1%. Also, although regional prices have traditionally been higher than those in metropolitan areas, following deregulation this gap has started to close (32% gap in 13/14 to 16% gap in 18/19).

To further illustrate the trend in NSW electricity prices over a 54 year time period is the following trend graph.

Figure 2 Comparison of NSW retail process by scenario and market.

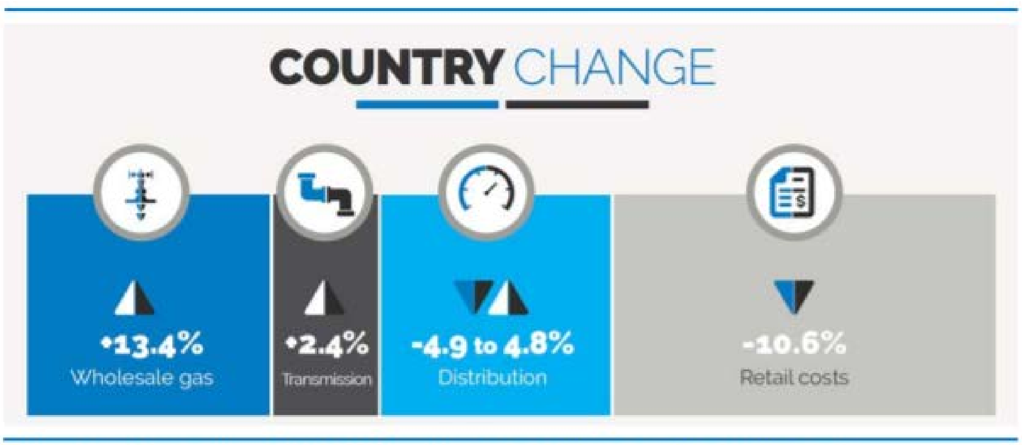


Source: Jacobs' analysis[1]

This clearly shows that electricity prices are expected to trend downward over the period of the proposed SRV of 2019 to 2026.

Similarly with regional gas prices, although wholesale prices have gone up, due to savings in transmission and distribution costs, regional retail prices have fallen 10% since deregulation.

Figure 3 Changes in Regional Gas Prices - IPART



Data source: Oakley Greenwood, *Efficiency of Gas Prices for Small Customers in NSW*, September 2018.

These findings show that since de-regulation the utilities cost burden on households has fallen and has started to stabilise. For the Dungog Shire LGA this implies that over the life of the proposed SRV there are no foreseeable price shocks and the future prices of electricity and gas will not adversely impact their capacity to pay for an SRV.

[1] Jacobs - Retail electricity price history and projected trends; AEMO; Retail price series development 1; September 21, 2017 page 32

Water Prices

Similar to gas and energy prices, movements in water utility rates will also impact household's cost of living. In 2016, IPART undertook a determination of Hunter Water's service costs until 2020. As part of this report, IPART identified that Hunter Water's non-residential customers were covering a disproportionate cost burden for Hunter Water's services. This has been adjusted and is reflected in the tables below, however after the adjustment period prices are expected to stabilise.

Table 10 IPART Hunter Water - Water

IPART Prices Residential - Water Service Charge $ / Year	15/16	16/17	17/18	18/19	19/20	% Change
Houses	17.75	25.36	49.43	71.14	93.95	429.30%
Apartments	17.75	25.36	49.43	71.14	93.95	429.30%

Table 11 IPART Hunter Water - Sewerage

IPART Prices Residential - Sewerage Service Charge $ / Year	15/16	16/17	17/18	18/19	19/20	% Change
Houses	593.58	596.58	598.07	602.26	606.01	2.1%
Apartments	430.35	447.43	463.51	481.81	499.96	16.2%

Table 12 IPART - Hunter Water - Environmental Charge

IPART Prices Residential – Environmental Charge $ / Year	15/16	16/17	17/18	18/19	19/20
Environmental Improvement Charge	38.37	38.37	38.37	38.37	38.37

An implication of these changes is that although there will be an increase in residential household expenditure on water and sewer, businesses, and in particular agriculture, are expected to receive financial relief. Furthermore, the community is already halfway through the price transition and as prices are expected to stabilise in 2020 the impact on the community's capacity to pay will not be significant.

Petroleum

Due to typical large travel distances and limited public transport infrastructure in regional NSW, the cost of petroleum is a significant factor when considering the cost of living. A review undertaken by the ACCC on retail petroleum prices in Australia found that regional petrol prices were greater than those in metropolitan areas due to higher freight and operating costs than in metropolitan areas. However, these prices were more stable than their metropolitan counterparts and were similarly primarily dictated by the global prices of crude oil and the Australian to US foreign exchange rate. The figure below shows the average regional price in fuel.

Figure 4 Average Weekly Prices Regional NSW

Over the past 12 months the average price of regional fuel has varied from 136 cents per litre to 164 cents, a variation of 20%.

Willingness to Pay

Alongside Dungog Shire's capacity to pay it is also important to gauge the community's willingness to pay for its current levels of services. Dungog Shire has a very active and involved community to which Council has been facilitating community workshops and meetings to inform the community on their current unsustainable financial position. In light of this, there are several indicators which exhibit the community's willingness to pay for services. These include:

- Levels of Outstanding Rates
- Private Health Care Ownership

Outstanding Rates

Council's outstanding rates ratios were sourced from their latest available audited financial statements and were compared to the other group 10 councils. These figures are indicative of not only a community's willingness to pay for the levels of service they are receiving, but also showcase a council's processes in place to support those facing financial hardship.

Table 13 Group 10 Outstanding Rates Ratios

Council	2015	2016	2017	2018
Blayney		2.23%	2.20%	**2.07%**
Upper Lachlan		2.36%	3.35%	**2.94%**
Berrigan		3.53%	3.72%	**3.30%**
Temora		3.12%	3.84%	**3.68%**
Gwydir		5.32%	4.42%	**4.29%**
Cobar		7.23%	8.21%	**5.14%**
Uralla		4.20%	4.33%	**5.38%**
Narrandera		8.21%	5.74%	**5.73%**
Dungog Shire	4.20%	3.60%	6.00%	**6.10%**
Liverpool Plains		8.79%	9.87%	**6.63%**
Glen Innes Severn		5.91%	4.72%	**6.63%**
Kyogle		7.51%	7.21%	**6.89%**
Bland	7.31%	7.43%	6.60%	**6.93%**
Tenterfield		5.96%	6.75%	**7.12%**
Oberon	7.48%	7.88%	**7.68%**	
Warrumbungle	8.44%	8.32%	**7.91%**	
Lachlan		6.56%	7.50%	**8.43%**
Junee		8.75%	8.75%	**8.72%**
Forbes		7.03%	10.29%	**8.76%**

Council	2015	2016	2017	2018
Edward River			5.49%	**9.00%**
Walgett		11.77%	10.37%	**9.48%**
Wentworth		10.03%	10.23%	**9.96%**
Narromine		8.10%	9.20%	**11.61%**

From Table 16 we can see that Dungog Shire Council currently has the 9th lowest level of outstanding council rates and is well below the industry benchmark of 10%, indicating a relatively lower level of financial hardship within the Dungog Shire community.

Private Health Care Ownership

The levels of private health care ownership are also a useful tool in assessing a community's willingness to pay for services and as an overall indicator of community wealth. To provide a comparison between the different Group 10 Councils, the total number of taxpayers with private health care was compared to the size of the labour force within an LGA, the results can be found in the table below.

Table 14 Group 10 Council Private Health Care Ownership

Councils	Private Health / Labour Force
Dungog Shire	83%
Temora	82%
Upper Lachlan	79%
Narromine	77%
Bland	76%
Tenterfield	76%
Cobar	75%
Berrigan	73%
Liverpool Plains	72%
Edward River	72%
Uralla	72%
Junee	71%
Warrumbungle	70%
Lachlan	69%
Forbes	68%
Gwydir	68%
Blayney	67%
Oberon	66%
Narrandera	66%
Glen Innes Severn	65%
Kyogle	63%
Wentworth	61%
Walgett	50%

Here we can see that Dungog Shire has the highest level of private health care ownership amongst all group 10 councils suggesting that the community is less price sensitive and has a greater level of overall community wealth.

Summary of Findings

This report investigates and assesses whether the Dungog Shire ratepayers potentially have the capacity and willingness to pay for an SRV over seven years. Our research has shown that Dungog Shire is a growing region that although is primarily agricultural, has seen a shift towards higher skilled and higher paid occupations in its secondary industries. This trend has been reflected in the region's average household income and overall socio-economic standing as seen by the second highest SEIFA score amongst group 10 councils.

Further comparisons with the other 'Large Rural' councils show that Dungog Shire has:

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

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

We have also ascertained that an increase in the community's rates is unlikely to occur in conjunction with any other foreseeable major increases in their cost living. There are low levels of mortgage stress in the community and the cost of utilities are stable or are stabilising over the next two years.

There is also a level of evidence, the extent of outstanding rates and private health cover, that indicate the majority of ratepayers are willing to pay for a range of services that meet the needs of the household.

In conclusion, our findings show that Dungog Shire's community has the capacity and willingness to pay for an SRV and is in a comparatively better position to do so than previous successful Group 10 SRV applicants.

ANNEXURE 2:

TO

LONG TERM FINANCIAL PLAN

FIT FOR THE FUTURE

The NSW Government has been working with the local government sector for over four (4) years to ensure that councils are able to deliver the services and infrastructure that communities need both now and into the future. This key reform measure is known as the Fit for the Future (FFTF) program, and as part of this process all NSW Councils were asked to put forward proposals that:-

- Assessed their scale and capacity against the recommendations of the Independent Local Government Review Panel and put forward options to address this where necessary; and
- Assessed financial performance against benchmarks, and put forward strategies and actions to improve against the Sustainability, Infrastructure and Services, and Efficiency criteria.

The NSW Government appointed the Independent Pricing and Regulatory Tribunal (IPART) to undertake an assessment of council proposals. IPART found that 27 councils did not meet one or more of the financial criteria. Dungog Shire Council was one of these councils.

Dungog Shire Council is a small rural council providing a limited range of services with a general rates base of just over $5.6M which is contributed by approximately 4,903 rateable properties. Dungog is experiencing population growth that is forecast to continue. It works collaboratively with other councils in the Hunter region and has a proud local government history and record of delivering services efficiently with one of the lowest average rates in the region.

As at the 30 May, 2018 the asset backlog for Dungog Shire Council was $17M. This figure coupled with one of the smallest workforces of all Councils in NSW meant that Dungog Shire Council was not able to meet the criteria set out in the FFTF program.

In response, Dungog Shire Council undertook the development of an Improvement Plan to achieve the financial benchmarks. These documents are available on Council's website https://www.dungog.nsw.gov.au. Council has also been invited by the NSW Office of Local Government to be reassessed and further discuss strategies aimed at sustainability. The reassessment will consider specific issues raised by IPART in the summary assessment for Dungog Shire Council but not issues of general dispute with the original assessment findings.

Dungog Shire Council is seeking to reduce expenditure via the following methods:-

- optimising procurement benefits through joint procurement ventures (an example being a proposed joint Council Tender, alongside Newcastle, Port Stephens and Lake Macquarie Councils for the Supply of Electricity for small sites);
- reviewing organisational structures to ensure all positions are value adding;
- reviewing fees and charges as part of the annual budget process for partial and full cost recovery;
- investigating own revenue opportunities such as income from caravan parks.
- focusing on asset management by refining the accuracy of asset management plans;
- investigating opportunities for rationalisation of surplus assets; and
- commencing discussion with the community regarding the need to increase income through a Special Rate Variation (SRV).

Council is committed to implementing its Improvement Plan, which includes a proposed SRV, and working towards meeting the benchmarks set by the NSW State Government under the Fit for the Future reform initiative. Between February and July 2018 Council invited all members of the Dungog Shire community to attend a series of meetings developed to inform ratepayers of Council's current financial position and the need for Council to consider applying for a SRV.

At these public meetings, members of the community were given the opportunity to participate on a Special Rate Variation Reference Panel. The Panel applicants were provided with further, more in depth information and were given the opportunity to ask Councillors and staff questions and provide input into the process of Council's consideration of the application to IPART for a Special Rate Variation.

As a result of our community meetings and feedback from Reference Panel meetings, the Councillors and staff, Council is now considering the preferred tapered scenario in relation to the SRV as follows:

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

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

In developing the SRV proposal the Community Reference Panel, Councillors and staff also considered the Office of Local Government Guidelines for the preparation of an application for a SRV to general income and the need to address the five criteria that allows IPART to undertake the assessment. These criteria are:

- The need for and purpose of a SRV is clearly articulated and identified in Councils Integrated Planning & Reporting documents.
- Evidence that the Community is aware of the need for and extent of a rate rise.
- The Impact on affected ratepayers must be reasonable.
- The relevant IP&R documents must be exhibited approved and adopted by Council.
- The IP&R documents or Councils application must explain the productivity improvements.

The following table illustrates the impact of the proposed rate increase on the average land value for each rating category and sub-category. This represents a 97.8% cumulative increase over seven years inclusive of the cumulative increase of 18.9% from the rate peg on the total average rate.

Rates Category			Projected Estimate of Average Rate Amounts							Cumulative Increase
	Average Land Value	Base Year Total	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	
Residential	$275,000	$1,075	$1,102	$1,129	$1,157	$1,186	$1,216	$1,246	$1,277	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$275,000	$1,075	$1,236	$1,421	$1,563	$1,720	$1,892	$2,005	$2,125	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$161	$347	$489	$645	$817	$930	$1,051	
Residential Dungog	$104,000	$726	$744	$762	$782	$801	$821	$842	$863	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$104,000	$726	$835	$960	$1,056	$1,161	$1,277	$1,354	$1,435	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$109	$234	$330	$436	$552	$628	$710	

Rates Category			Projected Estimate of Average Rate Amounts							
	Average Land Value	Base Year Total	Year 1 2019-20	Year 2 2020-21	Year 3 2021-22	Year 4 2022-23	Year 5 2023-24	Year 6 2024-25	Year 7 2025-26	Cumulative Increase
Residential Clarence Town	$125,000	$707	$724	$743	$761	$780	$800	$820	$840	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$125,000	$707	$813	$935	$1,028	$1,131	$1,244	$1,319	$1,398	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$106	$228	$321	$424	$537	$612	$691	
Residential Villiage	$125,000	$595	$610	$626	$641	$657	$674	$690	$708	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$125,000	$595	$685	$787	$866	$953	$1,048	$1,111	$1,178	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$89	$192	$271	$357	$453	$516	$582	
Business	$114,000	$956	$980	$1,004	$1,029	$1,055	$1,081	$1,108	$1,136	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$114,000	$956	$1,099	$1,264	$1,390	$1,529	$1,682	$1,783	$1,890	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$143	$308	$435	$574	$727	$828	$935	
Business Clarence Town	$95,000	$790	$810	$830	$851	$872	$894	$917	$940	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$95,000	$790	$909	$1,045	$1,150	$1,265	$1,391	$1,475	$1,563	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$119	$255	$359	$474	$601	$684	$773	
Business Dungog	$109,000	$932	$955	$979	$1,004	$1,029	$1,054	$1,081	$1,108	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$109,000	$932	$1,072	$1,233	$1,356	$1,491	$1,641	$1,739	$1,843	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$140	$301	$424	$559	$709	$807	$911	
Business Villiage	$109,000	$717	$735	$753	$772	$791	$811	$831	$852	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$109,000	$717	$824	$948	$1,043	$1,147	$1,262	$1,337	$1,417	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$108	$231	$326	$430	$545	$621	$701	
Farmland	$600,000	$2,236	$2,292	$2,349	$2,408	$2,468	$2,530	$2,593	$2,658	18.87%
Annual Increase (%)			2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Residential Ordinary Rate	$600,000	$2,236	$2,571	$2,957	$3,253	$3,578	$3,936	$4,172	$4,422	97.78%
Annual Increase (%)			15%	15%	10%	10%	10%	6%	6%	
Cumulative Impact of SV above Base Year level			$335	$721	$1,017	$1,342	$1,700	$1,936	$2,186	

In terms of affordability Dungog Shire Council's current average rate is the lowest of all its neighbouring Councils as illustrated in the following table. Compared with all Group 10 councils, Dungog Shire's average rate of $1,098 is less than 82% of the average[1] and 46%

[1]1 Office of Local Government, *2016-17 Council comparative time series data*, Dungog Shire Council information compared with neighbouring Councils http://olg.nsw.gov.au/public/my-local-council/yourcouncil-website

of the highest council's average rate. Compared with Group 10 councils, Dungog has a higher residential rate than average; however it is less than half of the highest council's average residential rate. (Office of Local Government 2016-17, Council comparative time series data)

Table 1 Average rate comparison[1]

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

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

Table 6 Group 10 Councils Weekly Household Income

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

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

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

Socio-economic indicators for the Hunter Region

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

Another key determinate of capacity and willingness to pay is the level of outstanding rates and charges. Council's outstanding rates and charges ratio has remained below the accepted 10% benchmark for rural councils for over 10 years. It has slightly increased in the last two years due to Councils inability to fill the vacant rates position, this role has now been filled. This is coupled with Councils Hardship Policy and provisions in debt collection which aim to provide options for ratepayers experiencing genuine financial hardship and provides an indication of the ratepayer's capacity to pay.

Further information relating to the Special Rate Variation can be found in Council's Long Term Financial Plan, independent Assessment of Capacity to Pay report, Resourcing Strategy and on council's website.

If Council resolves to proceed with an SRV the required application would be lodged in February 2019, which, if approved by IPART would come into effect from July 2019.

SUMMARY

Dungog Shire Council's latest Four Year Plan Delivery Plan clearly outlines projects and activities to be implemented by Council in accordance with strategies established by the Community Strategic Plan 2030. Supporting this Delivery Plan is the Resourcing Strategy and annual Operational Plan 2018-2019 which provides details, including the resourcing strategy (time, money, assets and people) on individual projects and activities to be undertaken in the 2018/2019 financial year.

The Delivery Plan 2018-2022 provides guidance on how Council will work to improve the amenity of residents, manage the challenges of our region, provide support to vulnerable community members, protect and enhance Dungog's unique heritage and culture.

The job of Council is to look at the big picture, to consider the views of the whole community and to make well informed, fair decisions. Now, more than ever, Dungog Shire Council is expected to provide strong leadership in challenging times. Through the Delivery Plan 2018-2022 Council seeks to advocate for social justice, support our key towns centres and help our communities live healthy lifestyles while enjoying cultural, recreation and open space opportunities.