IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

For applications for 2014/15

Issued October 2013

Kempsey Shire Council
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1 Introduction

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

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

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

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

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

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

1.1 Completing the application form

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

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

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

This application form consists of:

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

1.2 Submitting the application

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

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

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

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

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

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

Level 17, 1 Market Street, Sydney NSW 2000.

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

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

2 Focus on Integrated Planning and Reporting

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

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

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

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

The Macleay Valley Community Strategic Plan 2036 was adopted by Council in June 2013. This plan represents the community's aspirations for the future and focuses on four primary values of Healthy, Wealthy, Safety and Sociable.

Our Community's Vision

We live in a community that provides opportunity to all, to prosper in an environment that supports well-being, connectedness and access to resources the community wants and needs.

Council has identified its role in achieving the community's goals and has developed a four year Delivery Program and an annual Operating Plan to allocate council resources towards these goals.

The Delivery Program 2013 -2017 was adopted by council in June 2013, this program made provision for the Special Rate Variation over a period of four years and was placed on public exhibition in May 2013.

In November 2013 an updated Delivery Program, Financial Overview was presented to Council and placed on public exhibition until 20 December 2013.

In February 2014 the following the exhibition period the Financial Overview section of the Delivery Program 2013-2017 was updated and adopted by Council.

The Delivery Program has direct correlation to the Macleay Valley Community Strategic Plan 2031 adopted by Council in June 2013.

Asset Management plans and Asset Management Strategy including revised Asset Management Policy was adopted in February 2014.

The community consultation process followed on from the consultations held in 2010, 2011 and 2012. The 2014 application for a special rate variation was an extension of these consultations and information was provided through the print media, website, Mayoral columns, shopping centre visits, newspaper articles, television interviews and council's Facebook site. A letter with fact sheets was issued to all ratepayers outlining the need for a rate increase and impacts on ratepayers. An online rate calculator is available for ratepayers to identify the direct impacts on their rates over the period of four years. An intensive community awareness program was undertaken from September 2013 and is ongoing.

Key Supporting Documents

Macleay Valley Community Strategic Plan 2036

Kempsey Shire Council – Delivery Program including the Operational Plan 2013-2017

Kempsey Shire Council – Asset Management Plan 2014

Kempsey Shire Council – Asset Management Strategy 2014

Kempsey Shire Council – Asset Management Policy 2014

Kempsey Shire Council – Workforce Plan 2013

3 Assessment criterion 1: Need for the variation

In the DLG Guidelines, criterion 1 is:

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

The response in this section should summarise the council's case for the proposed special variation. It is necessary to show how the council has identified and considered its community's needs, alternative funding options and the state of its financial sustainability.

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

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

Maintain existing services	X
Enhance financial sustainability	☐
Environmental works	☐
Infrastructure maintenance / renewal	X
Reduce infrastructure backlogs	X
New infrastructure investment	☐
Other (specify)	☐

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

Financial Plan

The Kempsey Shire Council Long Term Financial Plan is based on two scenarios being:

- Special Rate Variation (SRV) scenario (scenario 1) - A proposed SRV of 7.00% above the rate pegging limit over the next three years (2014/2015, 2015/2016 and 2016/2017) and 1.00% above the rate pegging limit in the fourth year (2017/2018) becoming permanent then reverting to the rate pegging limit from 2018/2019.

- Baseline scenario (scenario 2) - The rate pegging limit only.

The scenario showing the proposed Special Rate Variation clearly demonstrates that Council will be able to:

- Address the rate of growth in the infrastructure backlog and over time decrease the backlog through planned major maintenance works.

- Maintain the desired level of service expressed by the community

- Take advantage of grant funding that may become available for projects in the Delivery Program

If the SRV is approved to a lesser amount then there would be a reduction in the number of projects to be undertaken each year identified by criteria applied to the planned asset improvement program used to primarily consider the assessed condition and known usage of the assets to be renewed, repaired or upgraded. This approach ensures that projects are programmed and prioritised on a needs and risk basis.

If the SRV is not approved planned reduction in services currently delivered in would be implemented in accordance with community consultation

Council faces a significant challenge in meeting community expectations for the adequate provision of services and renewal and maintenance of assets. Councils existing rate revenue is not adequate to cover the funding required to provide services and maintain assets at a level expected by the community.

NSW Treasury Corporation - Financial Assessment of Kempsey Shire Council

A Financial Assessment, Sustainability and Benchmarking assessment was undertaken by the NSW Treasury Corporation (TCorp) with respect of Kempsey Shire Council and a report released on 20 March 2013.

TCorp assessed Kempsey Shire Council as having a “weak” Financial Sustainability Rating with a “Negative” Outlook. This view was determined based on TCorp’s review and consideration of the historical and forecast financial results and against a set of benchmark indicators. This was based on the following observations:

- Council has posted consecutive operating deficits when capital grants and contributions are excluded

- Councils Debt Service Cover Ratio has been below benchmark in each year and the Interest Cover Ratio in two of the four years indicating Council has limited capacity to utilise further borrowings

- Council has total borrowings of $46.1 million in 2012 with $13.5 million within the General Fund

TCorp’s executive summary detailed that Council reported $113.8 million of Infrastructure Backlog in 2012 which represented 13.9% of total infrastructure asset value ($821.5 million). The Infrastructure Backlog has increased to $120.24 million and total infrastructure asset value to $836.04 million as at 30 June 2013.

The Long Term Financial Plan assessed by TCorp included an 11.37% SRV (including rate peg) approved for 2012/2013 as well as the proposed SRV of 10.00% inclusive of the rate peg in 2014/2015 to 2016/2017 and 4.00% inclusive of the rate peg in 2017/2018.

TCorp advised *“when analysing the financial capacity of the Council we believe that Council should not look to utilise further borrowings in addition to the $5.6 million proposed to be utilised in 2013.”*

Council was successful in Round 2 of the Local Infrastructure Renewal Scheme administered by the Division of Local Government with a loan of $5.6 million provided for Revitalising Kempsey's Business Corridor Project. This project involves replenishing the commercial corridor and hub of Kempsey so that it can grow after the town has been bypassed and the road corridor has been handed back to the community. This SRV application if successful would fund the interest and principal loan repayments (refer to section 5.1 (Table 8) for details of the proposed spending).

If the special variation seeks funding for contributions plan costs above the development contributions cap, refer to Box 3.1.[1]

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

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

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

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

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

3.1 Community needs

Indicate how the council has identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and

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

provision in deciding to apply for a special variation. The application should include extracts from, or references to, the IP&R document(s) that demonstrate how the council meets this criterion.

The reason for the application.

The purpose of this application is to secure additional funds for Council in order to undertake essential roadwork and bridge maintenance that are beyond the resources in the Council's recurrent budget.

Over the past five years the Kempsey Shire community has indicated that they expect improvements in the local transport infrastructure. During a series of community consultations held since 2011, and the 2008 Community Survey, reinforced during 2011 and 2012 consultations and including requests received directly by Council, the primary feedback has centred on the state of the road network. The outcomes of this feedback reflect a significant gap in Council's capacity to maintain the road network to community expectations and maintain existing services.

There is supporting evidence that many roads and bridges in the Kempsey Shire are in poor condition. The current shortfall to bring the road network up to a satisfactory standard is $43.94 million per annum. In 2009 this shortfall was $33.33 million. In an attempt to reduce the growing budget deficit Council conducted a rationalisation of its budget realising $2.5 million per annum in savings and efficiencies. Council resolved not to take any further loans to reduce interest and repayment requirements. Despite this and other productivity improvements council is still facing a significant shortfall in relation to its capacity to fund maintenance and address infrastructure backlog. This is illustrated in Council's Asset Management Plan.

A revised Community Strategic Plan was adopted by Council in June 2013. This long term plan was formulated with community feedback during consultations in 2011, the 2008 Community Survey on community priorities which were reinforced in 2011 and 2012 through additional community surveys and feedback.

The new Community Strategic Plan reflects the community's aspirations of being Healthy, Wealthy, Sociable and Safe. Local Government although not having sole responsibility in achieving these goals, provides the very platforms in which to achieve these aspirations.

Additional revenue is needed to maintain assets and current services. Alternatives have been explored, cost efficiencies realised. Without increased revenue a reduction in local government service level will have a profound impact on the community and the ability to realise these goals.

Kempsey Shire Council as part of the Integrated Plan Reporting Framework reviewed assets and services provided to the community, scrutinising expenditure, services and asset conditions during 2011, 2012 and 2013. This process led to the development of an Asset Management Plan for Council's Community Infrastructure Assets.

Assets assessed included roads, bridges, kerb and gutter, flood mitigation, stormwater and buildings. What was highlighted during this process is that over the next ten years an average of $23.2 million per annum is required to replenish existing community infrastructure assets. Council's LTFP provides an average level of $7.2 million per year towards asset replenishment leaving a significant shortfall of $16 million per annum. The Asset Management Strategy details the actions planned to further investigate the quantum of the shortfall and address it over time.

Of considerable note was the condition and underfunding of the road network. In 2008 and 2013 Council undertook a road condition assessment on the Shire's network comprising 748km of sealed roads and 375km of unsealed roads, including 193 road bridges using automated survey vehicle software. This information revealed a rapidly deteriorating network; only 8.8% of the sealed road network was in poor condition or worse in 2008 however that has grown to 39.9% in 2013

As part of this process Council examined internal resource allocation and operations. Over the past 5 years an accumulated $6.01 million savings and efficiencies have been realised through budget cuts, internal savings and through a reduction of loan repayments. Council stopped taking out additional loans in order to reduce debt and repayment costs.

Without additional rate revenue Council cannot sustain current service levels to the community and meet infrastructure maintenance costs. With the proposed rate increase the community will retain existing Council services and over a period of 20 years the Shire's road network will be adequately maintained. A loss of services to rechannel funds into the road network will have a detrimental impact to the community in terms of social and economic dislocation.

Council provides minimal community services and recreational facilities a loss of these services will deter future investment and economic opportunities for the Shire and reduce the standard of living for residents.

Council proposes to raise an additional income through the proposed rate increase to carry out works and services as detailed in the Delivery Program. Financial resources obtained through the rate increase will be directly spent on road and bridge maintenance

3.2 Alternative funding options

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

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

As mentioned earlier the Macleay Valley 2036 Community Strategic Plan articulates the community's expressed views that in 2036 the people of the Macleay Valley will be accessing quality infrastructure including roads that encourages the use of open spaces and provides easy access between our towns and villages.

The 2013 – 2017 Delivery Program summaries some of the major issues facing council in terms of achieving the goal of Wealthy through "Provide Transport Network" that "Will allow people to produce goods, earn a living, shop and socialise. People will be able to go to school and sport. People will be able to access other services and connect with each other". Specifically to:

- Provide an effective network of public roads.
- Undertake replenishment of the road network.

The plan addresses the major issues facing council and the community as:

- Ageing transport assets in need of significant maintenance
- The challenges of funding programs to maintain the transport network
- The community's reliance on cars due to limited public transport places additional pressure on infrastructure
- The Macleay Valley is a significant tourist destination attracting over 500,000 visitors to the area each year placing additional stress on the road network.

This SRV is required to ensure that Council can continue to deliver the current level of services and maintain community assets that the community has in majority supported the retention of. The Delivery Program, Operational Plan and Resourcing Plans are framed so as to deliver the outcomes required by the community in the development of the Community Strategic Plan.

Scenario 1: Council is permitted to increase rates over a four year period

Introduction

This option is the preferred option. It does not provide sufficient funding to address infrastructure concerns immediately or in some cases for a significant time but meets the community's desire for increases in rates to be minimised as much as possible. It has been developed to allow the Council to move to a situation where it can continue to sustainably provide the same range of infrastructure and services as it currently provides. Moving to this position is dependent on:

- Council adopting and retaining a strategy of not taking out any further debt in general activities and paying out existing debt to allow funds to be redirected to provision of services.
- Council identifying a further $1.5 million in funds to be redirected from service provision and maintenance of infrastructure and into infrastructure replenishment.

This scenario is dependent on these factors as the major costs of infrastructure groups and administration allowances are based on industry standard costing, not the current spending patterns of this Council. This means that under this scenario the Council needs to operate effectively to be able to provide the services listed as currently provided.

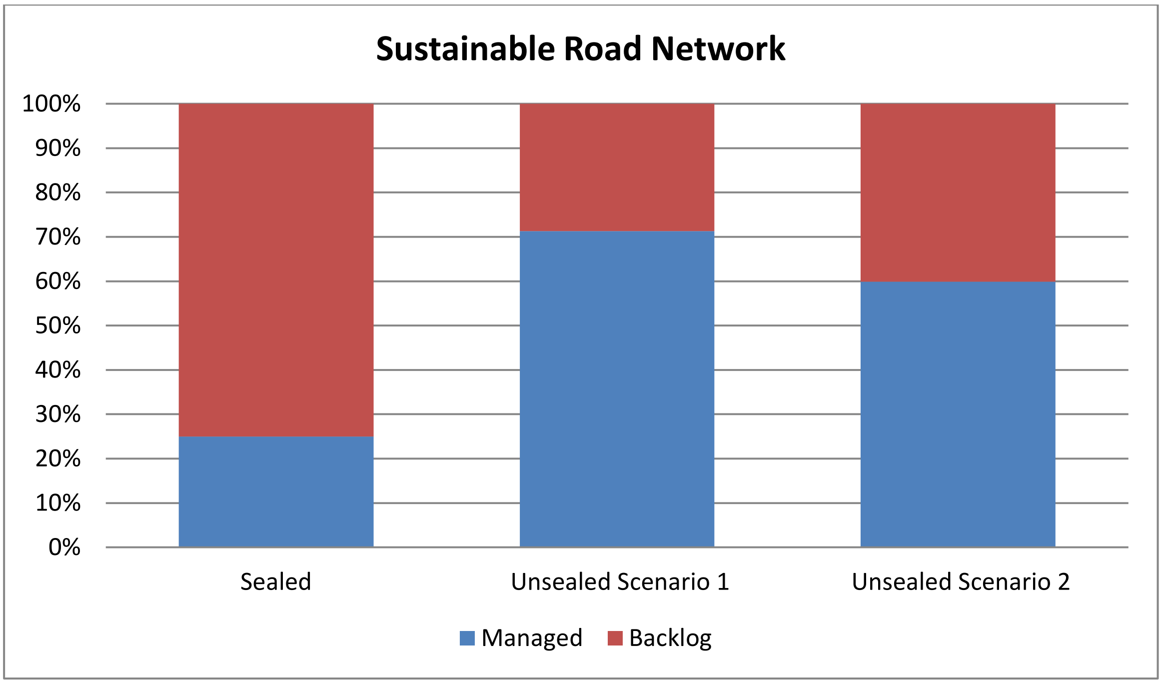
At the end of ten years of the financial resourcing strategy under scenario 1 Council will have found $2.5 million per annum in efficiency savings, reallocated $3 million from debt repayment into current and future service provision.

Impacts of Scenario

As this is the scenario on which the Integrated Plan has been developed there are no impacts on what is included as being provided to the community compared to what has been allowed for in the Integrated Plan.

The following chart shows the extent of the road network brought under sustainable management during the period of the next ten years. Roads are the community's highest priority and are the first focus for the Council. Under each scenario the same level of sealed network is brought into a sustainable position, where the Council is undertaking regular and periodic maintenance to properly manage that part of the network. The extent to which this is achieved for unsealed roads varies under each scenario, as scenario 2 provides for a lower level of funding in the early period.

Chart 1 - Sustainable Road Network

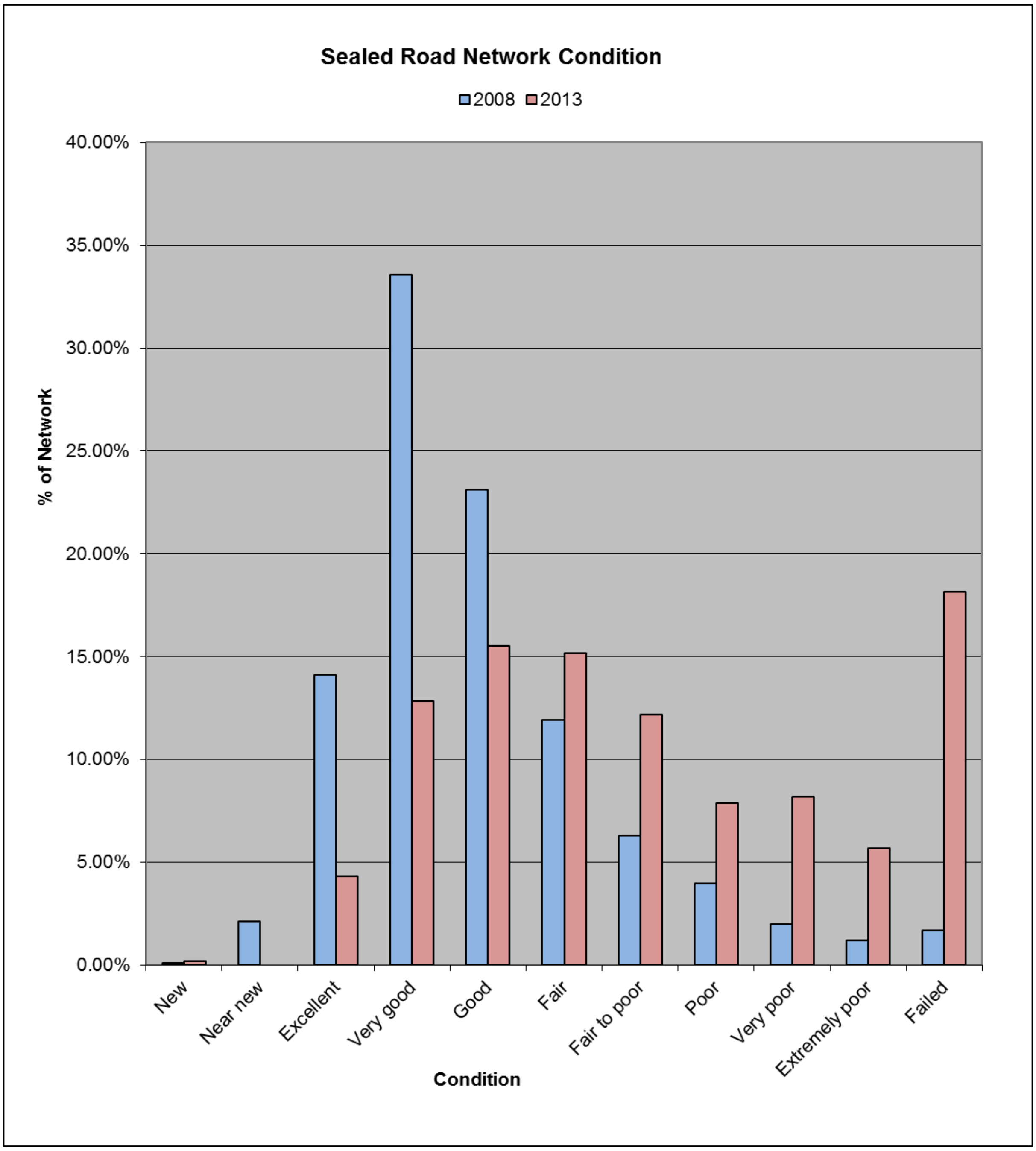


The following chart details the comparison of the condition of the sealed road network of Kempsey Shire between 2008 and 2013. Over the five year period the sealed road network has deteriorated markedly with the percentage of the road network condition being reported in the range from poor to failed increasing to 39.91% (2008 – 8.83%). The general shift of the road condition from new to failed is as follows:

New	0.16% compared to 0.06% in 2008
Near New	0.00% compared to 2.14% in 2008
Excellent	4.30% compared to 14.10% in 2008
Very Good	12.81% compared to 33.57% in 2008
Good	15.49% compared to 23.09% in 2008
Fair	15.17% compared to 11.92% in 2008
Fair to Poor	12.16% compared to 6.29% in 2008
Poor	7.87% compared to 3.96% in 2008
Very Poor	8.19% compared to 1.99% in 2008
Extremely Poor	5.68% compared to 1.21% in 2008
Failed	18.17% compared to 1.67% in 2008

This trend is set to continue with the current level of income available to Council to provide the level and range of services and demonstrates the existing revenue level is not adequate to cover the funding required to provide services and maintain assets at a level expected by the community.

Chart 2 – Sealed Road Condition comparison 2008 - 2013



Scenario 2: Council remains with rates increases in line with the approved rate peg increase (No increase option)

Introduction

This option is considered the minimal cost option. It does not provide sufficient funding to allow the Council to provide the existing level of infrastructure and services. Under the Local Government Act the Council is required to *"have a program (its "delivery program") detailing the principal activities to be undertaken by the council to implement the strategies established by the Community Strategic Plan within the resources available under the resourcing strategy."* (Local

Government Act, section 404(1)) The resourcing strategies map out a ten year period, but also set the longer term limitation on the resources available.

Accordingly under this scenario the Council must provide a Delivery Plan that is capable of being achieved within the resources available under this scenario. Ten years is a relatively short timeframe in the management of infrastructure and as such the approach taken has been to look at the level of resources required to sustain the infrastructure on a whole of life basis. To this is added the cost of providing services. This provides for an annual cost to the organisation for what can sustainably be achieved within the resources set out in the resourcing strategy models without any above rate increase.

To determine the priority to be placed in infrastructure and services that will be provided into the future reference has been given to a survey of the community undertaken in 2008 and another undertaken in 2010. Based on this information, priorities of the main types of infrastructure/services provided were developed by the Council.

These priorities establish the outline within which the decision on what is retained under this scenario has been made. As the categories are broad categories, assessment has been undertaken within each category to determine if there are areas within that group that are a lower priority than infrastructure and services that are shown further down the list of priorities.

The community has the option of retaining a number of services currently funded by rates and general grants by moving those services to models that require no subsidy from general revenues. This could be through increasing fees to make the service 100% user charge funded or undertaking the work through community groups or on a voluntary basis.

Achieving this position is dependent on:

- Council adopting and retaining a strategy of no further debt and paying out existing debt to allow funds to be redirected to provision of services.
- The community continuing to support the additional environmental levy.
- Service/infrastructure cuts being undertaken as soon as reasonably practical.

Impacts of Scenario

The impacts under this scenario will be highly dependent on the timing with which Council cuts service provision. The current model achieves as similar results on the top priority asset class, road and transport infrastructure, through reducing many services as soon as possible but still in a practical way. Delays in reducing services will significantly reduce the level of investment in transport infrastructure.

Financially Sustainable Service Provision – Scenario 2

Local Roads

It is expected that the largest impact will be felt by the continual deterioration of the assets at a faster rate than would occur under the alternative scenario. The main changes that are seen as required under this scenario area:

1) Reduced potholing and surface roughness response time: With the increased surface deterioration Council will continue for some time to have insufficient resources to address all of the potholing and surface roughness expected to occur. Council has difficulty meeting the current maintenance task with the existing resources. It will not be possible to deliver more pothole patching and heavy patching with the current resources. It is anticipated that an additional $300,000 in maintenance costs will be incurred over the ten years due to delays in the rebuilding of roads. Council will respond to potholes based on severity. Only high severity potholes will be attended to once the road condition reaches its worst state, unless the service cuts free up funds in sufficient time to avoid reaching this stage. This is expected to gradually come into play over the next five to ten years, with first low danger potholes likely not to be repaired, then medium risk potholes. Smaller potholes will not be patched until they become larger potholes with a respectively higher risk / priority

2) This scenario provides $18.37 million (24.46%) less in road funding over the ten year period, if the earliest opportunity to withdraw from services it taken. This has come from road replacements. The impact of increased costs and road deterioration would be significant.

3) The main impacts will be seen on the lower traffic volume roads, particularly unsealed roads. These are the roads that have been sacrificed to allow Council to try and keep the sealed network operational in the medium term.

4) Increased roughness on unsealed roads: There will be a significant reduction in the ability of Council to provide gravel re-sheeting until funds are reallocated to this area through other service reductions. For a number of years the resources to go towards gravel re-sheeting will be effectively halved. This will lead to increased roughness and potholing of the gravel surfaces. The lack of gravel thickness on the road will make maintenance grading less

effective and the rate of deterioration between grading intervals will be increased.

Where significant dangerous conditions occur Council will be required to undertake works. In all other situations residents will be required to reduce their speed to suit the road conditions. Smaller traffic volume roads are likely to move to requiring four wheel drive access at times of poor weather.

5) Ancillary Road Facilities: Council is likely to have to sacrifice many road related infrastructure over the next ten years to allow it to focus on the highest risks, the road surface damage. Many low risk items, such as directional signs and road markings are expected to be sacrificed to allow higher safety matters to be addressed within the confines of the existing funds. Areas such as roadside slashing will be reduced to only focus on high safety risks, so this will mean a move away from slashing all the roadside to only limited slashing on the inside of corners or near intersections where sight issues create a high danger. Facilities such as bus shelters will not be cleaned or maintained and eventually they will be removed when they reach an unsafe condition.

Bridges	Reduction of maintenance on non-essential bridges will free up an expected $150,000 from the long term requirements. The short term budget savings will be considerably less and will be highly dependent on the works required to the bridge network, which is hard to predict with the level of information available. Under this scenario bridges like Jack's Crossing, where a new bridge was recently provided, to replace an older timber bridge, would not be funded for upgrading. Non-essential bridges will instead be treated through load limit reductions and eventual closure when required.
Stormwater and Flooding	In the short term there will be little visible change to the services provided. The changes are expected to become evident in the five to ten year period. This is the timeframes under which scenario 1 funding for roads would start to reduce the maintenance costs and in turn free up additional funds for other infrastructure and services. There is expected to be a longer period under which Council continues to only undertake minimum maintenance and face the prospect of major works that cannot be funded stopping the systems from working. Council faces significant costs relating to flood structures that are only in place to minimise the impact of flooding on

business. Council may consider looking to take an approach involving the raising of funds from those groups that gain the benefit. Under this scenario Council would have to apply for approval in the following year.

The impact of this scenario is an expected delay of five years in being able to allocate funds to more than minimum maintenance for flood mitigation works. The recent investigation into flood gauges has shown the potential impacts on the community, where the infrastructure they relied upon to guide their decisions on how to respond to a flood event failed. The minimum maintenance approach increased the exposure of the community to a failure of the infrastructure, resulting in damages from floodwaters.

Council has the option to impose a charge on urban and business assessments for provision of stormwater. On residential premises the charge is capped at $25 per annum. For business the charge is capped based on the area of land under the assessment. Imposition of this charge would raise at least $325,000. The introduction of this charge has not been incorporated in the current 10 year financial plan.

Coastal Environment and Estuary Management	These services will continue the same under each scenario in the shorter term. They are primarily funded by a special rate. Once that special rate is no longer in existence the program for estuary management would not be able to be funded within the current level of resources. Both scenarios' have been prepared on the basis that Council will apply to continue the program beyond the current approval date of 30 June 2018.
Flood Management	It is expected that the only change will possibly be the timing of funding. As Council does not provide any significant level of funding towards this area it is expected that that will continue until such time as the existing infrastructure and services of a higher priority are capable of being fully funded. Under scenario 1 funding for this area was only likely to come in once the loans had been paid off and additional efficiency savings had been identified.
Strategic Land Use Planning	Projects to be undertaken will need to be reviewed in light of the increasing need for basic infrastructure. This is expected to lead to a number of the projects to be deferred in the mid-term. It is considered unlikely that the projects in the first four years will be altered, as they are fundamental planning that needs doing and the main problems with the transport infrastructure would not have significantly manifested, it is expected funding in this area

will decrease in the five to ten year period and effectively delay strategic planning outcomes for five to ten years or further, depending on how quickly Council can move out of providing other services.

Customer Services

Over the short to mid-term staff numbers will be reduced by natural attrition. This will lead to increased delays in response times to calls. On previous history average response time is 20.33 seconds. The main impact will be on the longest wait periods currently 7.30 minutes, as fewer operators will lead to less ability to handle the higher peak flows. A review of the level of services and information offered would be undertaken with a shift to user self-assistance through either automated responses or increased use of internet resources for information.

There will also likely be a reduction in the level of publicity and information provided by the Council and number of events and activities that are undertaken until such time as the funding can be diverted from lower priority services. This will have a profound impact on the level of awareness in the community on Council's ongoing actions and operations.

As other services are dropped customer service levels will be increased after the higher priority services are fully funded. This is not expected to return to current levels until after loans are paid out.

Provide Employment Opportunities (Economic Wealth)

There is expected to be little impact in this area in the short term as the predominant costs are labour related. In the mid-term there may be a need to reallocate funding away from this area to deal with infrastructure safety issues, leaving only staff resources without funding for consultancies or projects to be undertaken.

It is expected that the removal of the services under scenario 2 will make the area much less desirable for people with the capital to invest in and develop businesses. This will significantly reduce the ability to create employment opportunities into the future.

Vegetation Management

This service is required to be undertaken by legislation however the level of service can be set by the Council. There is a requirement to match the funding provided under the grant funds on offer on a 1:1 basis. Council could reduce the level of grant funding it requests. Currently Council allocates $200,000 to this service, with a minimum requirement to match the grant funding of $77,000. It is not proposed to change the allocation under this service as

	currently the level of funding is most likely not providing for sufficient inspectorial and weed control to meet the legislative requirement to control all noxious weeds in the area.
Beach Foreshores (Surf Lifesavings)	This service remains unchanged as it is funded entirely from revenues raised from the caravan parks currently under Council control.
Environmental Health Inspection	This service remains unchanged as it is a legislative requirement.
Library Services	Until such time as the higher priority services and infrastructure can be funded the Council should look to reduce the library services through natural attrition. This is likely to lead to short term (2 to 5 years) reduction in operating hours, Kempsey library has already reduced operating hours in reviewing opening hours. It is not expected that Council would go to the extent of withdrawing services from existing locations, as this service should be able to be funded once loans are fully paid out.
Saleyards	No changes are expected under this scenario, as under all models it is intended to move the saleyards to a fully funded position.
Airport	No changes are expected under this scenario as there are limited options to reduce the service provided without totally removing the service. The extent to which users of this facility are being subsidised will be reviewed to ensure that any non-community use (i.e. use for emergency medical services) is provided on a fee for use basis. Options to improve the ability of these services to be self-funded will continue to be pursued.
Community Safety and Crime Prevention	It is anticipated that funding would remain for some service to continue. This would be generated from removal of non-essential bridges, reduction in library services, and removal of subsidy to private aerodrome use.
Cemetery Facilities	This service will have to be continued, but the level of service will be a minimum service to maintain the area in a reasonably neat and tidy facility. Higher maintenance will have to be undertaken by the community or relatives.
Environmental Rehabilitation	No change under this scenario as funded by the special rate levy.
Parks and Open Spaces	Maintenance will be restricted to the level of funds that can be raised from parks and gardens on trust areas and some

funding made from the removal of non-essential bridges. The level of funding will effectively drop by around 50%.

It has also been customary that Council in the past has withdrawn more from the caravan park operations than is sustainable over the longer term. This has led to a run-down of those facilities and high reliance on debt for upgrades. This situation will need to be addressed in the short to medium term, further affecting the ability of the Council to maintain the open spaces. This is expected to reduce the level of available funding by a further 20%.

Initially Council will seek approval from the NSW Government to allow for the funds available to be spread across the entire Council network. This will require the Council to focus its attention on a number of key parks and facilities and provide a moderate level of maintenance and no infrastructure that cannot be grant funded. As playgrounds, shelter structure and other infrastructure become unsafe it will be removed.

It would be expected that there would be two parks in Kempsey and one in each of the populations of Hat Head, South West Rocks or Crescent Head. It would be expected that one park area would have to service Smithtown/Gladstone. It is unlikely that funds would allow for maintenance of areas upriver.

If the NSW Government does not agree to the funding of reserves not linked to the Caravan Parks there will be less impact on the coastal communities due to the major reserves being linked to the caravan park operations. The coastal reserves at South West Rocks, Hat Head or Crescent Head are likely to be maintained at a similar level to currently possible, if Council cannot gain approval to transfer funds to other reserves within the open space network.

Initially the community will be given the option to maintain areas through development of volunteer groups. Land owned by Council that no groups will effectively manage will be disposed of. Land held in trust will be handed back to the NSW Government through Council resigning as trustee.

This process is expected to take two to three years. Staff will be reallocated to road works areas.

Public Toilets

Council will withdraw from providing public toilets. The existing facilities will be closed and are likely to be either

	disposed of with the property or handed back as part of the trust land. Closure of the facilities can be immediate, with staff reallocated within the organisation. The community will ten rely on toilets provided within commercial establishments.
Sporting Grounds	Sporting Ground Users will be given the option of user fees to move the facilities to fully user pays or undertaking care and maintenance of the facility through voluntary work. This may take the form of committees of Council or leases to sporting organisations. This process is expected to take two to three years, with staff being transferred to road works as facilities are handed over. Facilities where no group is willing to take on the maintenance will be either disposed of or handed back in the case of a trust where Council does not own the land.
Art Gallery	No change as under all scenarios it is expected that the Art Gallery shall move to a self-funding position.
On site Sewer Management	No change as this service has been moved to a self-funding position in all scenarios.
Street Sweeping	This service will be removed. Council will only respond to dangerous items. Service can be removed, with equipment sold and staff redeployed into road works. This will apply to streets, car parks and any other areas currently cleaned.
Swimming Pools	The community will be provided with the option of moving to a full user pays system or developing a volunteer system of operating the pools. Swimming Pool operations are high risk operations and time intensive. The ability of the community to undertake these operations using a high degree of volunteer labour may be limited, but Council will be required to work through with the community their options. This is expected to take two to three years to complete the community consultation and adopt an achievable management approach. The current contracts end in three more seasons and that would be appropriate to make operational changes at that point. In the interim if any major infrastructure issues arise the facility will either have to be closed or the community will have to undertake fundraising. Where communities cannot move the facility to full user pays will have to be closed.
Youth Services	Council will no longer offer services to support the youth of the area. This service will be reduced as natural attrition

impacts on the staffing. As staff leave duties will be reallocated until insufficient resource are available to provide any youth support. This will likely mean there will be no youth week events, youth council, etc.

Street Lighting	Council will have to continue with is current contract for the maintenance and electricity of street lighting. As such street lighting will be provided for two to three years at the maximum. At the end of that period the street lights will be turned off except to the extent of the grant subsidy received. This means lighting is likely to be retained in the CBD areas of Kempsey, South West Rocks and Crescent Head only.
Cycle-ways and Footpaths	Most cycle-ways and footpaths will be affected by the sale or handing back of the open space land they are on. Where this does not apply, such as roadside footpaths, Council will not maintain footpaths. When footpaths and cycle-ways reach a stage where they are dangerous they will have to be removed and returned to a natural surface. CBD areas in Kempsey, South West Rocks, Crescent Head and Stuarts Point will be impractical to revert to natural surfaces. Minimum maintenance will be undertaken and replacement only will occur when essential due to high safety danger being present. Cracking, lips and trip hazards will be considered normal and not rectified. Property/Business owners may be encouraged to undertake works to maintain the footpaths across their frontage.
Community Buildings/Halls	Community groups will be approached to discuss moving the buildings to a fully user pays basis. Council will no longer cover the cost of rates, insurances or major upgrade needs for the facilities. It is expected that this will lead to a number of buildings being handed back to Council. Council will then have to dispose of those buildings. Other buildings community groups will opt to continue to operate until such time as the facility requires a major upgrade and at such time the facility will be disposed of. Other community groups will take over the facilities and run them on a fully user pays basis. There are not considered likely to be many in this group as most existing committees currently have extremely limited funding support from the local community. It is expected that the community groups will be given twelve months to determine what approach they wish to take, at which time the current operational subsidies and

any capital works funding will cease.

Boat Ramps

Council will undertake a review of the boat ramps. Initially ramps will be closed as lack of maintenance means that they are no longer safe for use. Areas around the ramps will not be maintained and Council will not remove build-up of deposits such as sand. Most major facilities are attached to open space land and the community will be given the option to take over maintenance on a voluntary basis. Where ramps are within the coastal crown reserve network funding will be maintained through reserve income, however a large proportion of ramps are not within crown reserves.

Festivals/Cultural Events

Council will cease financial support for a range of events, including Australia Day, Celebrate the Macleay and others. Staffing commitments will reduce by natural attrition, and as this occurs, support for the organisation and attendance at these events will reduce. It is expected that within two years support for community events will be reduced to minimum requirements to meet Council's insurance requirements.

Council will not have any funds to be able to seek large community events, which normally require a financial contribution and expect staff resources to help with running the event.

Visitor Information Services

Council will in the first stage discuss with tourism operators the level of financial they are willing to provide to this function. If insufficient resources are raised the Council will cease development and printing of new brochures and information.

The facility will continue to be operated until natural attrition allows for the transfer of staff into other activities of Council or staff leave. At this stage the physical presence will be stopped and the web site will be converted to a static or low input format.

The Museum, who currently rely on manning the facility to meet their requirements for rent payments will also be adversely affected and will have to identify other revenue streams to be able to remain in their current premises. This is expected to occur over two to five years.

Community Services/Donations	Community Donations have already been substantially reduced. Support for community groups outside of the Council are expected to cease after twelve months. This will provide community groups warning that they will no longer be receiving longer term support they have traditionally received, such as rate subsidies. The support that is not ongoing, such as individual donations to projects based on merit selection from applications and medical scholarships are removed immediately as those parties are not currently reliant on the funding.

Alternative revenue options are limited for Council with the only other option for funding expenditure of this scale being grant funding. Productivity improvements and cost containment strategies (refer to section 7 for further detail) that Council has undertaken over the past four years have offset operating expenditure and revenue constraints without assisting as an ongoing source of funds required to address Council's infrastructure backlog.

Council believes that the SRV that has been developed is the best solution to fund the proposed works and maintain the required service levels and utilises all available options for the maximum benefit of the community.

3.3 State of financial sustainability

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

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

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

Financial assessment as part of local government review

Investigations into operations of Council have indicated insufficient resources available to provide current services on a long term sustainable basis. A decision has to be made on how to deal with the situation; balancing the financial impacts on residents against the services and standards of services the community desires.

Council is coming from a relatively low rate level, and roads are not cheaper to build here than anywhere else, it should be expected that problems caused by underfunding will be more pronounced in this Council.

As part of the work being undertaken to review options for local government into the future the financial situation of the Council was reviewed by staff. As part of this review research into the level of maintenance expenditure that should be spent was undertaken. This research showed that the accepted level of maintenance would be in the range of 2% to 4% of the asset value. Currently, after the first part of the rate increase Council spends 2.18% of the asset value on maintenance.

To have maintenance at the mid-point of the range (3%) would require an additional $6.7 million per annum. Considering that the Council is operating with aged infrastructure that is past the optimal point of replacement (currently 13.4% of infrastructure is past the replacement point) it is likely that the realistic cost of maintaining the aged infrastructure would need to be at the higher end of the spectrum.

An assessment of depreciation levels across NSW was undertaken to ensure that the Council was not over or understating its expenses, this providing an unrealistic picture of the financial situation. Based on statistical analysis the current level of depreciation fairly reflects the true cost of the assets being consumed by the community each year.

This assessment confirms the TCorp assessment of the poor financial situation of the Council. It identifies that the financial position is worse than previously shown in the financial statements as the reduced level of maintenance expenditure is likely to lead to shorter asset lifespans and thus increased lifetime replacement costs.

Impacts of no increase in revenue

Without an increase of revenue Council's Delivery Plan outcomes will not be fully realised. Council considered the Delivery Plan and Community Strategic Plan as the future direction for the short and longer term taking into account the desires and priorities of the community.

The Delivery Plan allows for an increase in revenues from rates during the term of the plan. This addresses some of the infrastructure backlogs and allows for an increase in maintenance activities.

Roads and the road conditions have been highlighted through various community forums and surveys as being the highest priority service that council provides. Revenue raised by an increase in rates will be allocated to that priority.

The financial sustainability of the Council and the services it provides to residents will be significantly compromised without the recommended increases.

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

Based on the review of both historic financial information and the 10 year financial forecast within Council's Long Term Financial Position (LTFP) TCorp considered Council to be unsustainable if current service levels are continued within the General Fund. The key observations of TCorp were:

- Council is not currently in a financial position to continue to operate the General Fund at the service levels that are currently in place, with an additional SRV required to retain current service levels

- The increased depreciation expense following the Asset Revaluations and an updated Asset Management Plan will place Council in a more adverse operating position than forecast in the current LTFP

- It also indicates Council will not have the ability to fund asset maintenance, renewals or additions

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

- Operating balance ratio excluding capital items (ie, net operating result before capital as percentage of operating revenue before capital grants and contributions)
- Unrestricted current ratio (the unrestricted current assets divided by unrestricted current liabilities)
- Rates and annual charges ratio (rates and annual charges divided by operating revenue)
- Debt service ratio (net debt service cost divided by revenue from continuing operations)

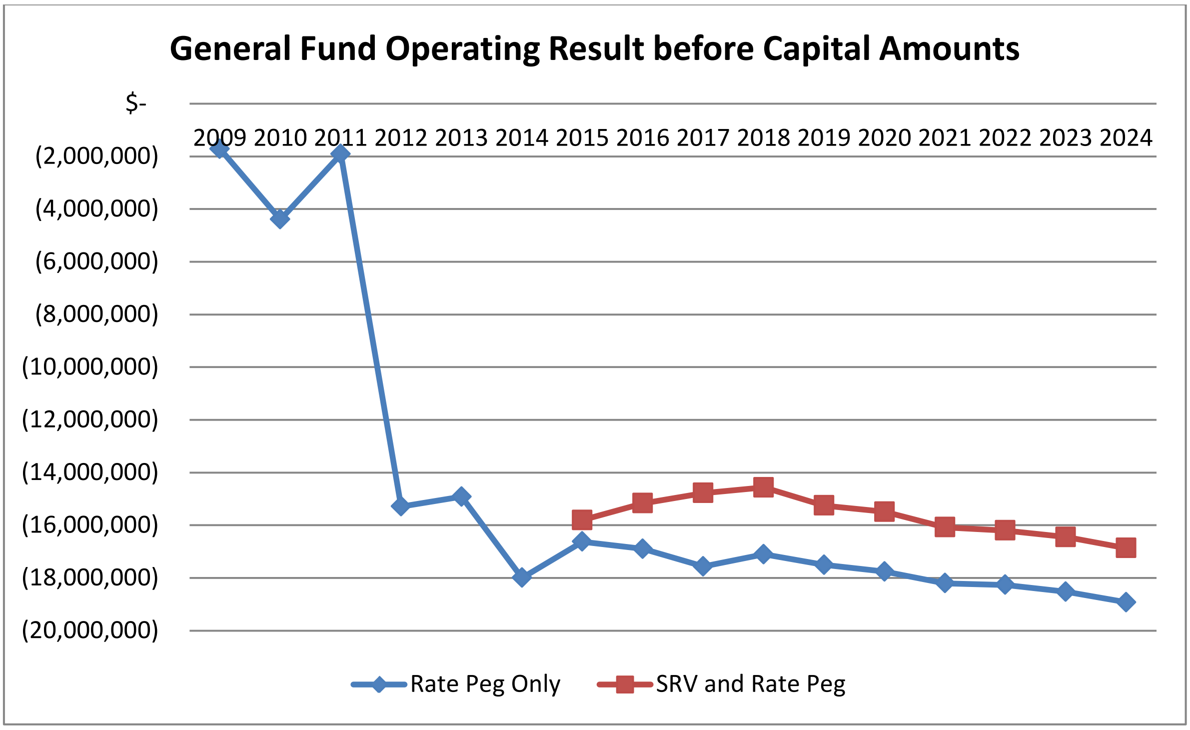
- Broad liabilities ratio (total debt plus cost to clear infrastructure backlogs (Special Schedule 7) divided by operating revenue)
- Asset renewal ratio (asset renewals expenditure divided by depreciation, amortisation and impairment expenses).

The following provides an overview on how the SRV would impact on Council's key performance indicators. As the graphs below portray Council has not and will continue to not be able to address the long term requirements of infrastructure renewal and replacement in a financially sustainable manner without the approval of a SRV.

Graph 1 plots Council's General Fund operating result **before** capital grants and contributions with actual results presented for the financial years between 2009 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.

This figure represents the ability of Council to meet the operational needs on an annual basis. Council should be endeavouring to achieve a surplus result on an ongoing basis to fund capital purchases, renewals and loan repayments.

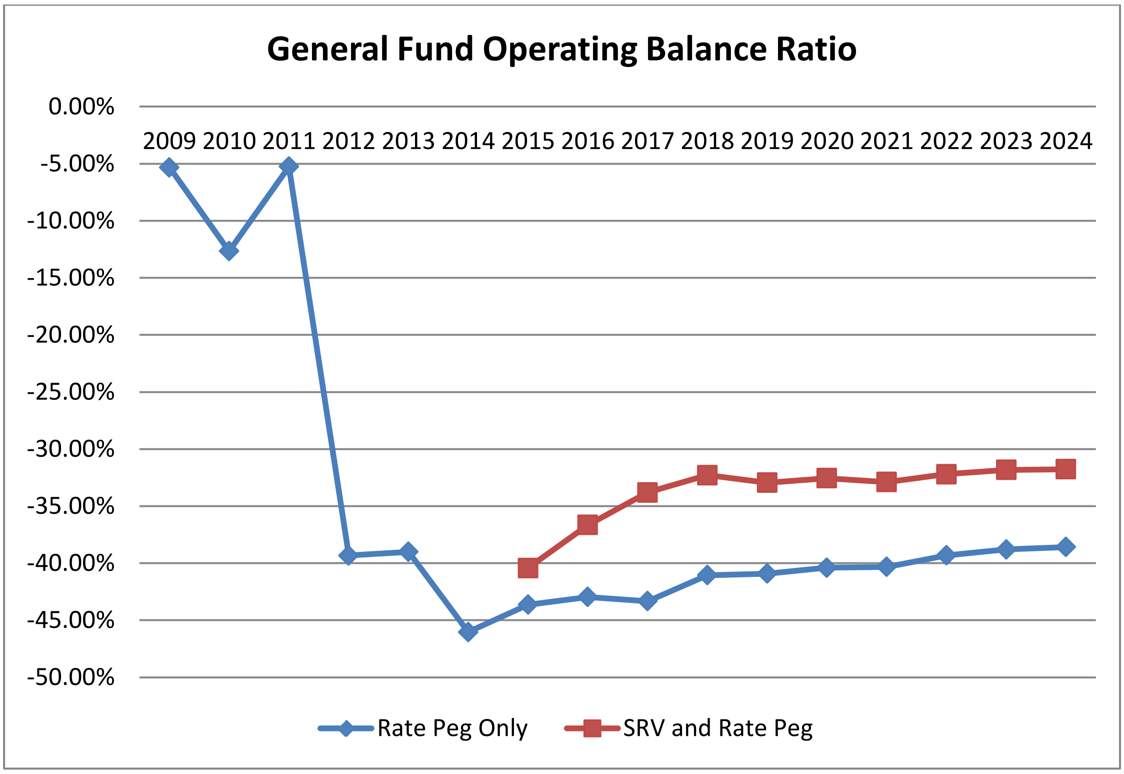
Graph 1 - Actual and Projected Operating Result (before Capital Amounts)



Graph 2 plots Council's General Fund operating balance ratio with actual results presented for the financial years between 2009 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.

This ratio measures Council's achievement of containing operating expenditure within operating revenue. Council should be endeavouring to achieve a positive result on an ongoing basis to fund the provision of operational services to the community. The TCorp benchmark is > -4.00%.

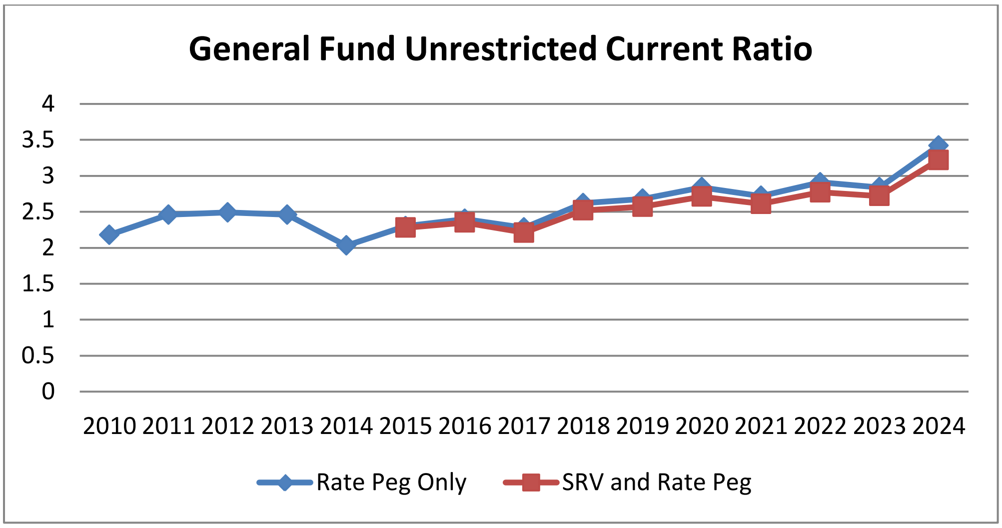
Graph 2 - Actual and Projected Operating Balance Ratio



Graph 3 plots Council's General Fund unrestricted current ratio with actual results presented for the financial years between 2010 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.

This ratio assesses the adequacy of working capital and the ability to satisfy obligations in the short term for unrestricted activities of Council. The TCorp benchmark is > 1.5.

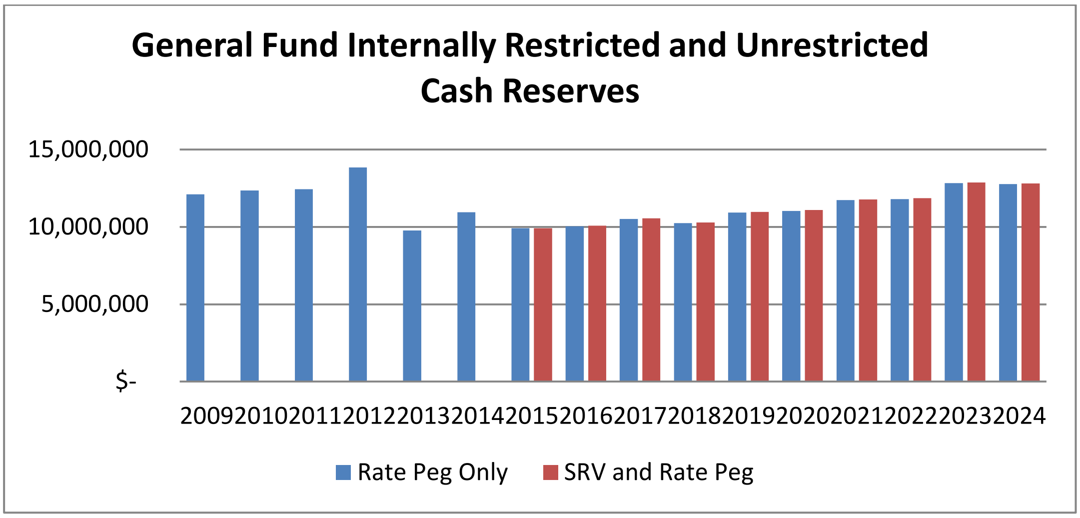
Graph 3 - Actual and Projected Unrestricted Current Ratio



Graph 4 plots Council's General Fund internally restricted and unrestricted cash reserves with actual results presented for the financial years between 2009 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.

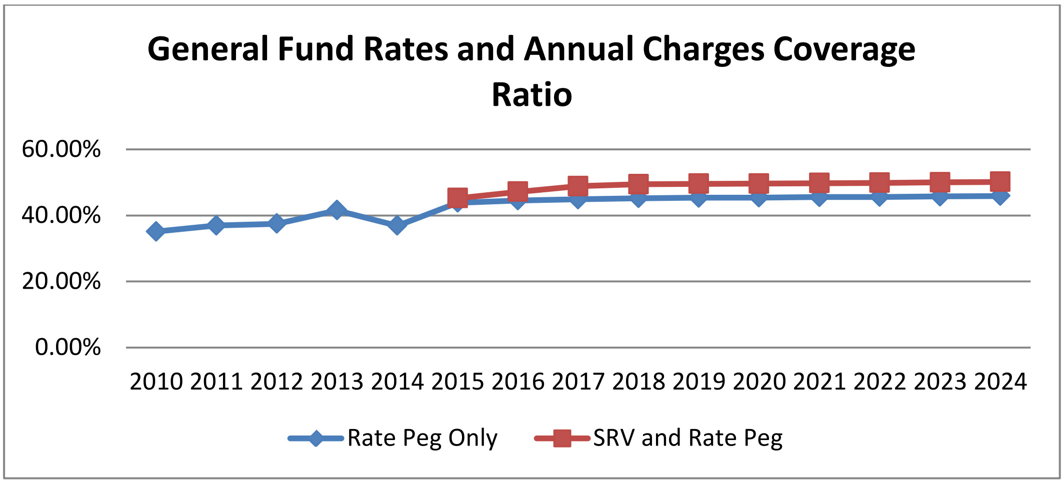
This figure represents amounts Council has put aside to fund future long term objectives which generally relate to operational matters. The adequate funding of reserves is probably the greatest challenge facing local government generally and in our opinion Kempsey Shire cash reserves are relatively low.

Graph 4 - Actual and Projected Internally Restricted and Unrestricted Cash Reserves



Graph 5 plots Council's General Fund rates and annual charges coverage ratio with actual results presented for the financial years between 2010 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.
This ratio assesses the degree of Council's dependence upon revenues from rates and annual charges and to assess the security of Council's income.

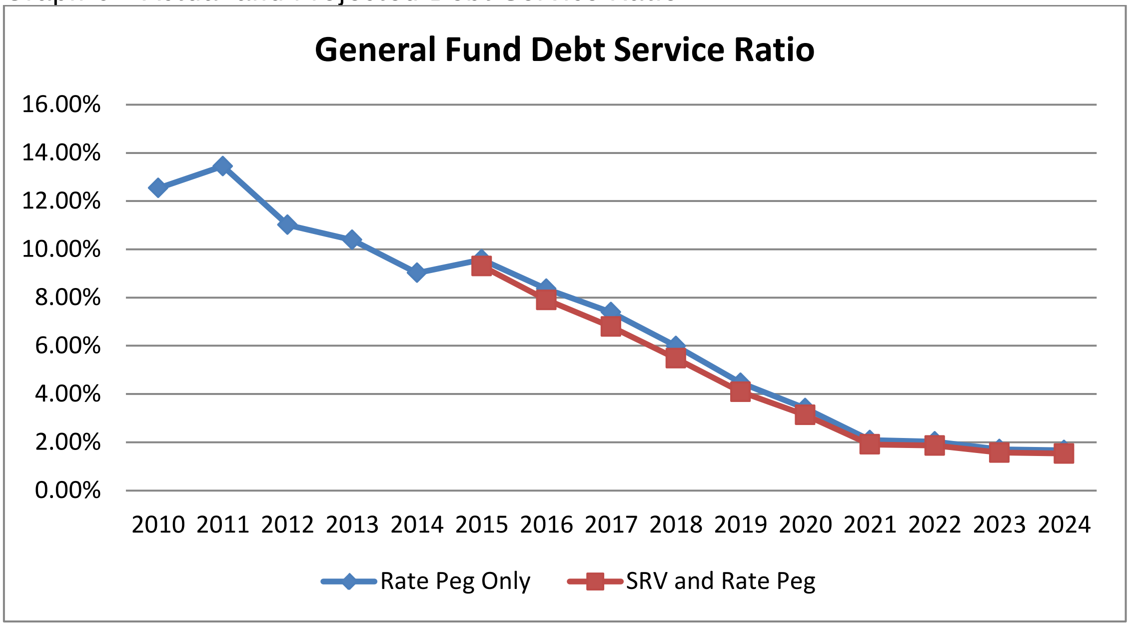
Graph 5 Actual and Projected Rates and Annual Charges Coverage Ratio



Graph 6 plots Council's General Fund debt service ratio with actual results presented for the financial years between 2010 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.

This ratio assesses the impact of loan principal and interest repayments on the discretionary revenue of Council.

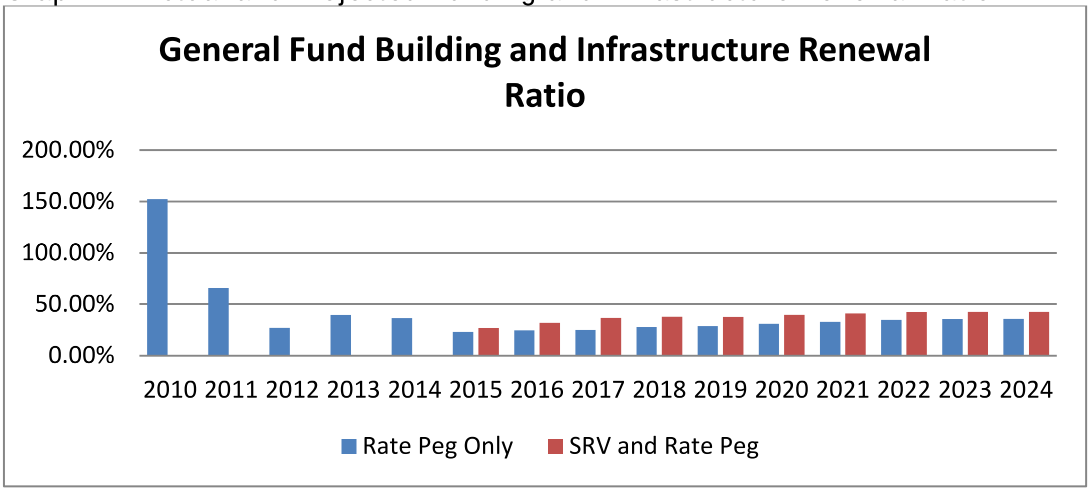
Graph 6 - Actual and Projected Debt Service Ratio



Graph 7 plots Council's General Fund building and infrastructure renewal ratio with actual results presented for the financial years between 2010 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.

This ratio assesses the rate at which building and infrastructure assets are being renewed against the rate at which they are depreciating. Council should be endeavouring to achieve an average ratio greater than 100.00%.

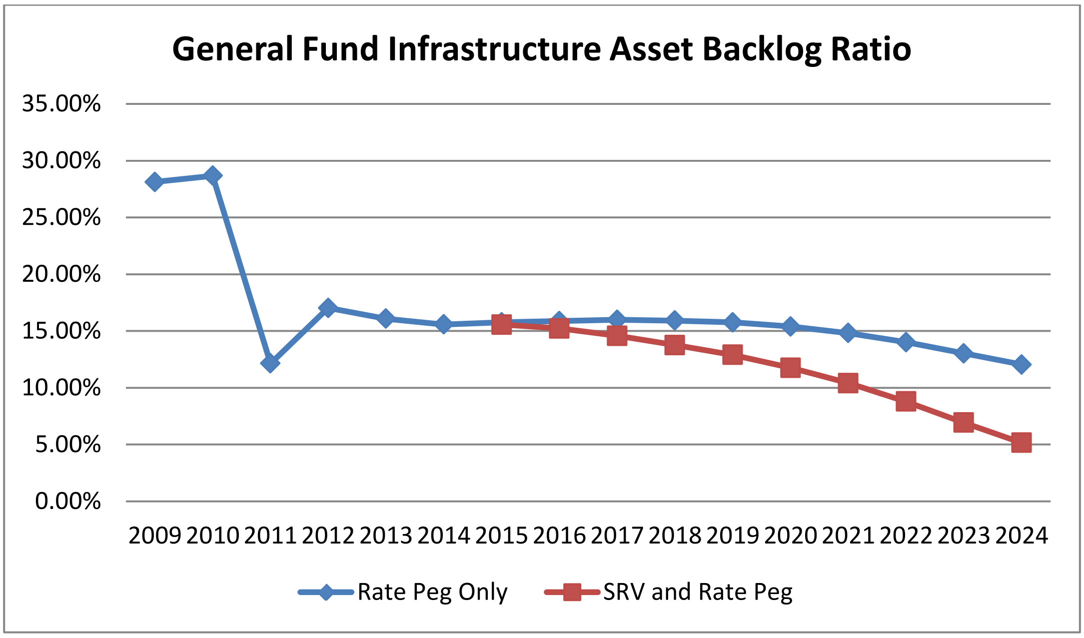
Graph 7 - Actual and Projected Building and Infrastructure Renewal Ratio



Graph 8 plots Council's General Fund infrastructure asset backlog ratio with actual results presented for the financial years between 2009 and 2013 and projected results from the LTFP based on the rate peg amount only and the SRV including the rate peg amount.

This ratio shows what proportion the backlog is against the total value of Council's infrastructure assets. The TCorp benchmark is < 20.00%.

Graph 8 - Actual and projected Asset Backlog Ratio



The ten (10) year Financial Plan for scenario 1 and scenario 2 are attached at attachment 5 and 6 respectively. These Plans include both General Fund and Consolidated Entity projections for the following:

- Income Statement
- Statement of Financial Position
- Statement of Cash Flows
- Ratios
- Budget Summary
- Activity Summary

3.4 Capital expenditure review

Councils undertaking major capital projects are required to comply with the DLG's Capital Expenditure Guidelines, as outlined in DLG Circular 10-34. A capital expenditure review is required for projects that are not exempt and cost in excess of 10% of council's annual ordinary rates revenue or $1 million (GST exclusive), whichever is the greater. A capital expenditure review is a necessary part of a council's capital budgeting process and as such should have been undertaken as part of the Integrated Planning and Reporting requirements in the preparation of the Community Strategic Plan and Resourcing Strategy.

Council is not required to complete a capital expenditure review

Does the proposed special variation require you to do a capital expenditure review in accordance with DLG Circular to Councils, Circular No 10-34 dated 20 December 2010?	Yes ☐ No X ☐
If *Yes*, has a review been done and submitted to DLG?	Yes ☐ No ☐

4 Assessment criterion 2: Community awareness and engagement

In the DLG Guidelines, criterion 2 is:

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

To meet this criterion, councils must provide evidence from the IP&R documents[2] that the council has:

- Consulted and engaged the community about the special variation using a variety of engagement methods and that the community is aware of the need for, and extent of, the requested rate increases
- considered and canvassed alternatives to the special variation
- provided opportunities for input and gathered input/feedback from the community about the proposal

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

- considered the impact of rate rises on the community
- considered the community's capacity and willingness to pay.

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

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

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

The council should have explained to its community:

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

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

4.1 The consultation strategy

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

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

Council has a Community Engagement Strategy (April 2011) and subsequent activities related to the SRV were viewed as an important component of Council's ongoing implementation of the Integrated Planning and Reporting Framework.

The communications plan sought to continue with the engagement process initiated in 2010 to 2013 in order to determine community priorities and inform the community of the financial constraints of Council.

In 2012 Council applied for a significant SRV gaining approval for a partial SRV from IPART, this has been an ongoing journey with the community. With the partial rate increase Council has provided regular feedback to the community on projects that have been completed and provides a weekly works schedule.

Council commenced community consultation in October and November 2010, with a "Meet the Boss" campaign which initiated a series of public meetings in nine different locations across the Shire. This initial consultation provided the community with detailed information on Council's financial situation and the condition of community assets that needed to be maintained and at what cost. The general response to these consultations was one of appreciation of informing the community on challenges faced by council and the community together.

A multi-media strategy was used to promote the consultations this included advertising in the local paper, the local free weekly magazine, and commercial radio. Flyers and brochures were printed and distributed by Council. During the first round of consultations residents were surveyed as to the location, preferred time and what method of advertising alerted them to attend. The results of this feedback were used to determine future consultation promotions and venues.

Council also consulted directly with the business community through the Kempsey & District Chamber of Commerce and attended several Chamber meetings in presenting the current situation and options to address community requirements.

Further community consultations were undertaken during the 2011 "Putting the Pieces Together" campaign. This program of community consultations in towns and villages across the Shire provided feedback to the community on the results of surveys and what services could be delivered at Council's current funding levels in order to meet the community priorities of roads.

Establishing the consultations in various towns and villages across the Shire provided maximum opportunity for community members to attend and participate in the IP&R process and contribute to future planning priorities.

The feedback was used to develop the Macleay Valley Community Strategic Plan 2036 in 2013 and the Delivery Programs of 2012-2016 and the updated 2013-2017 program.

During consultations in 2011 - 2012 the community identified their preferred information dissemination tool as the local Happynings (free weekly community magazine) and newspaper with a weekly distribution of approximately 11,800 each week for both publications. Council has used this media as a primary tool for community engagement. More recently social media is a tool council has used to communicate with the community.

Council provides weekly updates on road and bridge maintenance activities. Keeping the community informed of the works currently in progress. Council maintains an ongoing dialogue with the community.

Outcomes sought from the Communication Plan

- Provide information to the general community so that they are informed
- Gain community feedback on the proposed increases
- Provide the details of the road and bridge maintenance priorities that will be realised with the SRV

Providing information on the SRV 2013 - 2014

Promotion and communication methods included;

- 16 full page information advertisements in the Happynings from October 2013 to February 2014
    - What we have done with the additional funds from the last increase
    - What will council do with the additional funds
    - The SRV will apply to all rating categories
    - Information on the deteriorating road network
    - Rate increase calculator online
    - Fast facts from questions raised at community consultations
    - Where money is spent
    - Services council provides
    - Comparisons to other areas

Media articles in the local newspaper

Radio interviews Mayor and GM on local radio and ABC

TV interviews

Community consultations – face to face

- South West Rocks Shopping Centre
- Kempsey Central Shopping Centre
- Kempsey Clyde Street Mall

Online web based information

- Fast Facts
- Priority works for the SRV
- Online calculator
- Online survey
- Where the money has been spent – last SRV
- Delivery Plan 2013-2017
- Macleay Valley Community Strategic Plan
- Operating Plan 2013-2014

Facebook

- Online post on Council's application for SRV

Online Participation as at 18 February 2014

Councils Rate Increase Section

- 2,221 page views
- 1370 Unique page views
- 188 Direct views average 14.27 minutes on site
- 52 Direct views to On Line Rates Calculator

Direct Mail Out

Letters were issued to all ratepayers explaining the need for the rate increase including additional information.

Documents on Public Exhibition

Council's Community Strategic Plan was placed on public exhibition in May 2013

Councils Delivery Program and Operating Plan were placed on public exhibition in May 2013. The Delivery Program included a multi-year SRV.

Council received 36 submissions associated with reduced service levels at the libraries, and cutbacks to open space, civic maintenance and street sweeping.

Council placed an updated "Financial Overview" of the Delivery Program on Exhibition in November 2013.

With no submissions received.

4.2 Alternatives to the special variation

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

In 2008 a Community Survey was undertaken, the results of this survey were reconfirmed in 2011 and 2012. The community ranked roads as the number one priority. It was also clear that even though the community ranked other services lower, the community was not prepared to lose current services.

The alternative to not receiving a SRV is a loss of service levels to the community, with some removed. Council does not have the financial resources currently to maintain assets properly and provide the services it provides.

These are explored further in section 3.2 Alternative Funding Options and drawn community priorities surveys in 2008 and reinforced in 2011 and 2012 consultations.

Councillors have considered these options and as representatives of the community do not propose these are viable for community development in the longer term or achieving the community aspirations as reflected in the Macleay Valley Community Strategic Plan 2036.

4.3 Feedback from the community consultations

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

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

Council has received the following feedback from the community

Method	Number of submissions

Letters including email	58
Online survey	141
Telephone calls to Customer Services	17
1 Petition	4255 signatures

Note: The Petition received by Council cannot be validated that it actually includes ratepayers only as it does not meet the state requirements or form of a petition.

"The petition must be signed by the people whose names are listed, using their own signature or mark if they are unable to write. Every person signing a petition must write their address after their signature" source NSW Government http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/key/FactSheetNo16?open&refnavid=LA9_9

Address details are not provided and Council cannot confirm that the signatories are ratepayers or residents of the Kempsey Shire. It should also be noted that this petition was circulated during peak tourist season.

A summary of the correspondence received are as follows.

- 45 letters opposed the rate increase; this figure includes multiple letters from several individuals.
- 4 letters supported the rate increase.
- 9 Letters requested information or related to other services.

Summary of the contents:

Comments	**Council actions**
Reduce council (internal costs)	Promoted and will continue to promote that $2.5m pa has been saved and Council continues to look for efficiencies. Additional reductions will impact on service levels.
Current cattle prices and the impacts on farm land	Council in its Economic Development Strategy is looking to promote value added agricultural industries and to diversify on-farm income.
Poor community / pensioners	Council has analysed capacity to pay as part of this application.

Funds spent on Clyde St Mall upgrade and Elbow Street West Kempsey	RLCIP Grant funds primarily used for these projects. Section 94 funds and some prior loan funds. Council will improve communication methods for future works including signage of how projects are funded.
Size of rise and timeframe	Council is asking for what it needs in rate revenue to address the maintenance backlog. The community's assets are deteriorating at an increasing rate and the increase in rates applied for will address this.

Online Survey Responses

Question	**No. Responses**	**Yes**	**No**	**Undecided**
Q1 Are you a property Owner in the Kempsey Shire?	141	95.74%	4.26%	N/A
Q2 Do you think the current standard of Council's road infrastructure is satisfactory?	134	33.58%	66.42%	N/A
Q4 Do you think it is a good idea to invest more in our road network to improve it?	130	76.92%	23.08%	N/A
Q6 Are you aware that Council is applying for a multiple year permanent rate rise starting from 1 July 2014?	124	96.77%	3.23%	N/A
Q7 Are you aware of the size of the rate rise?	124	88.71%	11.29%	
Q8 Are you aware that this rise only applies to general rates and not water, sewer and waste? (Water, sewer and waste are all increasing but that is separate to this application.)	128	85.94%	14.06%	

Q9 Are you aware that the money from the rate rise will only be spent on the road network?	130	63.85%	36.15%	
Q10 For the average residential ratepayer the proposed increase would mean an extra $83.42 in the first year, an extra $91.77 in the second year, an extra $100.93 in the third year and an extra $44.41 in the fourth year (i.e. $320.53 over the life of the variation or about $6.15 per week) above current rates. Please note that this increase includes the increases allowed by rate pegging. Either considering the above or using the online calculator, do you think this rate levy increase is acceptable?	131	32.06%	63.36%	4.58%

Additional Questions

Q3. How satisfied are you with the quality of infrastructure currently provided by Council in the local area?

Answer Choices	**Responses**
Very satisfied	6.72%
Satisfied	18.66%
Neutral neither satisfied or unsatisfied	32.09%
Dissatisfied	26.12%
Very dissatisfied	16.42%
Total Responses	134

Q12 Based on what you have been told, how important do you believe it is that Kempsey Council is allowed to introduce this special rate variation?

Answer Choices	**Responses**
Very Important	17.05%
Important	21.71%
Neutral –neither important or unimportant	17.83%
Not very important	18.60%
Not at all important	24.81%
Total Responses	107

Q15 What do you think is the best way for Council to communicate with the community?

Answer Choices	**Responses**
Newspaper ads	18.8%
Social Media	12.87%
Community consultations	29.70%
Newsletters mail outs	27.72%
Other	10.89%
Total Responses	123

Note: Questions 5, 11, 13 and 14 provided options for comments. These comments are available in the full survey results.

4.4 Considering the impact on ratepayers

Indicate how the council assessed the impact of the special variation on ratepayers, and where this was addressed within the community awareness and engagement processes. Where the impact will vary across different categories and/or sub-categories of ratepayers, the council should consider the circumstances of the various different groups.

Council assessed the impact on ratepayers taking into considerations SEIFA and economic data as outlined in 5.2 Affordability and community capacity to pay in this application.

Council also provided information on the average rate increases over the four year period for the three categories of rates, Residential, Farm Land and Business,. Access to an online rates calculator was also available which included rate rises for waste, water and sewerage. Online resources were promoted throughout the community. Libraries also provide free internet and Wi-Fi access for people without internet connections or computers. Residents were also encouraged to contact Customer Services for additional information.

Community information days were held in South West Rocks Shopping Centre, the Kempsey Shopping Centre and the Kempsey Clyde Street Mall.

4.5 Considering the community's capacity and willingness to pay

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

Evidence on capacity to pay could include a discussion of such indicators as SEIFA rankings, land values, average rates, disposable incomes, the outstanding rates ratio and rates as a proportion of household/business/farmland income and expenditure, and how these measures relate to those in comparable council areas. As many of these measures are highly aggregated, it may also be useful to discuss other factors that could better explain the impact on ratepayers affected by the proposed rate increases, particularly if the impact varies across different categories of ratepayers.

A comprehensive analysis of Council's review of capacity to pay is provided in 5.2 within this application. Council considered the SEIFA index of disadvantage rankings, weekly household income levels, median rental costs and median housing repayments, average personal income, household wealth, average rates, pensioner rebate percentage comparison , employment status and current outstanding rates ratio's.

Comparisons with Councils in Group 4 and neighbouring Councils on the Mid North Coast have been made in considering the community's capacity to pay.

5 Assessment criterion 3: Impact on ratepayers

In the DLG Guidelines, criterion 3 is:

> *The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. Council's IP&R process should also establish that the proposed rate increases are affordable having regard to the local community's capacity to pay.*

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

5.1 Impact on rates

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

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

We recognise that a council may choose to apply an increase differentially among categories of ratepayers. However, you should explain the rationale for applying the increase differentially among different categories and/or subcategories of ratepayers, particularly in light of the purpose of the special variation. This will be relevant to our assessment of the reasonableness of the impact on ratepayers.

Rating Structure

The current and proposed rating structure comprises the following categories; Residential, Business and Farmland and do not contain sub-categories.

Under each scenario the rating structure with or without the special variation will be the same. Each rating category will have a base amount and ad-valorem component. The base amount for each category will remain at approximately the same percentage as they are currently, that being:

- Residential – 49.65%
- Farmland – 27.75%
- Business – 22.40%

The cents in the dollar for the ad-valorem component will be different for each category which is set to recoup approximately the same percentage of income from each category as follows:

- Residential – 72.65%
- Farmland – 16.05%
- Business – 11.30%

Scenario 1 - Proposed Special Rate Variation

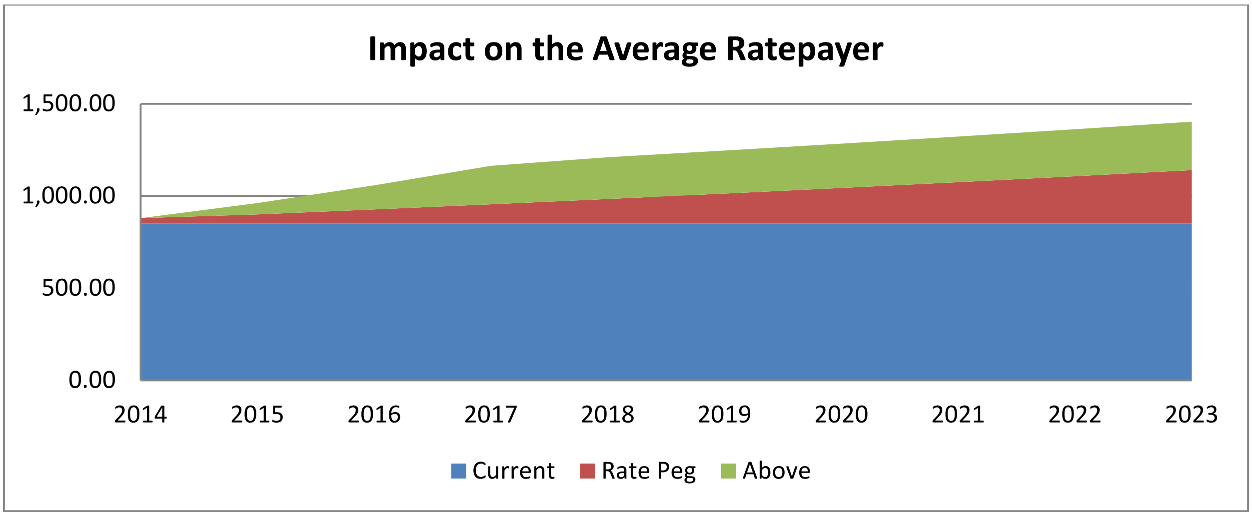
Impact on Rates

Council's special rate variation is based on the same percentage increases across all rating categories.

The proposed increases in the level of general rates for the community were included in the Delivery Program 2013-2017 and Operating Plan 2013-2014 placed on public exhibition and adopted by Council on 25 June 2013. The commentary in the Delivery Program advised:

"One increase has already been applied, but a further four increases will be required in order to stabilise the finances in the short term. The first of these increases is planned to come in from the 2014/2015 financial year. They incorporate four years of increases of 10% per annum. The table below shows the impact on the average ratepayer."

Graph 9 - Impact on the Average Ratepayer



When community consultation was undertaken for the SRV approved in part for the 2012/2013 year the SRV at that time included a delayed scenario which in effect is scenario 1 of this SRV. The current Delivery Plan incorporated an agricultural levy to raise approximately $140,000 and an economic levy to raise approximately $200,000. Both these levies were signalled to commence in 2014/2015 however have not been addressed in this SRV. It is proposed to bed down the current SRV and revisit the proposed levies in future years.

Council has made available on-line calculators to assist ratepayers in determining the actual increase they would see if the SRV is successful. Worksheet 5A indicates that the average residential land value would receive an annual increase of $58.39 in 2014/2015 as a result of the SRV. Annual increases for the average residential assessments of $65.57 (2015/2016), $73.92 (2016/2017) and $16.96 (2017/2018) would be incurred by the average rate assessment as a result of the SRV. This equates to an additional $4.13 per week once the proposed SRV is fully in place after the four year implementation period.

The cumulative increase over the four year period for the average residential assessment if the SRV is successful is $313.16.

The cumulative increase over the four year period for the average residential assessment taking into account rate pegging only is $98.32.

This difference amounts to $214.84 or an additional $4.13 per week.

Residential – 12,291 assessments - Worksheet 5A (Application Part A) details the impact on average rates with the special variation and without.

Table 1(a) - Impact on Rates – Residential

	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)
% increase with special variation	9.30	10.00	10.00	4.00
% cumulative increase	9.30	20.23	32.25	37.54
$ annual increase for average rate payer	77.57	91.18	100.29	44.12
$ weekly increase for average ratepayer	1.49	1.75	1.93	0.85
$ weekly increase on special variation only (excluding rate peg) for average ratepayer	1.12	1.26	1.42	0.33

Worksheet 5B (Application Part A) details the impact on rates at various land value ranges. A total of 11,652 (94.80%) of residential ratepayers have a land value within the first three land value ranges. Annual increases across these three land value ranges are from a minimum of $53.79 to a maximum of $146.38 in year three for the land value amount of $250,000.

The same data as above excluding the special variation results in a minimum of $13.52 to a maximum of $39.22 in year four for the land value amount of $250,000.

Business – 813 assessments - Worksheet 5A (Application Part A) details the impact on average rates with the special variation and without.

Table 2(a) - Impact on Rates – Business

	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)
% increase with special variation	9.30	10.00	10.00	4.00
% cumulative increase	9.30	20.23	32.25	37.54
$ annual increase for average rate payer	182.81	214.87	236.35	104.00
$ weekly increase for average ratepayer	3.52	4.13	4.55	2.00
$ weekly increase on special variation only (excluding rate peg) for average ratepayer	2.65	2.97	3.35	0.77

Worksheet 5B (Application Part A) details the impact on rates at various land value ranges. A total of 742 (91.27%) of business ratepayers have a land value within the first five land value ranges. Annual increases across these five land value ranges are from a minimum of $71.75 to a maximum of $410.75 in year three for the land value amount of $450,000.

The same data as above excluding the special variation results in a minimum of $17.64 to a maximum of $111.56 in year four for the land value amount of $450,000.

The cumulative increase over the four year period for the average business assessment if the SRV is successful is $738.03.

The cumulative increase over the four year period for the average business assessment taking into account rate pegging only is $231.68.

This difference amounts to $506.35 or an additional $9.74 per week.

Farmland – 1,425 assessments - Worksheet 5A (Application Part A) details the impact on average rates with the special variation and without.

Table 3(a) - Impact on Rates – Farmland

	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)
% increase with special variation	9.30	10.00	10.00	4.00
% cumulative increase	9.30	20.23	32.25	37.54
$ annual increase for average rate payer	147.45	173.30	190.63	83.86
$ weekly increase for average ratepayer	2.84	3.33	3.67	1.61
$ weekly increase on special variation only (excluding rate peg) for average ratepayer	2.13	2.40	2.70	0.62

Worksheet 5B (Application Part A) details the impact on rates at various land value ranges. A total of 1,233 (86.53%) of farmland ratepayers have a land value between $100,000 and $599,999. Annual increases across these land value ranges are from a minimum of $87.97 to a maximum of $275.64 in year three for the land value amount of $550,000.

The same data as above excluding the special variation results in a minimum of $21.67 to a maximum of $74.83 in year four for the land value amount of $550,000.

The cumulative increase over the four year period for the average farmland assessment if the SRV is successful is $595.24.

The cumulative increase over the four year period for the average farmland assessment taking into account rate pegging only is $186.81.

This difference amounts to $408.43 or an additional $7.85 per week.

Domestic and Commercial Waste Management

The two domestic waste management services, being the two bin and three bin services increase by cumulative amounts of 12.50% and 12.43% respectively over the four year period covered by the application.

The 240 litre commercial waste service similarly increases by a cumulative amount of 12.42% over the four year period.

The following table provides details of increases contained in the Delivery Program and Operating Plan for Waste Management Annual Charges for the coming four years.

Table 4 - Impact on Waste Management Charges

Meter Size	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)		
	Annual (%)	Annual (%)	Annual (%)	Annual (%)	Cumulative (%)	Cumulative ($)
2 bin service	2.82	3.14	3.04	2.95	12.50	31.00
3 bin service	2.91	3.08	2.99	2.91	12.43	47.00
Commercial 240 litre service	3.03	2.94	3.14	2.77	12.42	41.00

Water Supply

The following table provides details of increases contained in the Delivery Program and Operating Plan for Water Supply Annual Charges for the coming four years.

Table 5 - Impact on Water Supply Annual Charges

Meter Size	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)		
	Annual (%)	Annual (%)	Annual (%)	Annual (%)	Cumulative (%)	Cumulative ($)
20mm and vacant land	5.24	4.60	5.13	4.88	21.37	53.00
25mm	5.24	4.73	4.99	4.98	21.47	82.00
32mm	5.31	4.73	4.96	5.00	21.54	134.00
40mm	5.27	4.71	5.06	5.00	21.59	209.00
50mm	5.31	4.72	4.93	5.04	21.55	325.00
80mm	5.30	4.69	5.02	4.98	21.54	829.00
100mm	5.29	4.71	5.00	5.00	21.55	1,295.00
150mm	5.30	4.70	5.00	5.00	21.55	2,911.00
200mm	5.30	4.70	5.00	5.00	21.55	5,254.00
Fire Service	5.34	4.65	4.98	5.00	21.51	145.00

Sewer Service

The following table provides details of increases contained in the Delivery Program and Operating Plan for Sewer Service Annual Charges for the coming four years.

Table 6 - Impact on Sewer Service Annual Charges

Meter Size	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)		
	Annual (%)	Annual (%)	Annual (%)	Annual (%)	Cumulative (%)	Cumulative ($)
Residential Vacant	7.51	7.58	7.42	7.43	33.48	156.00
Residential Connected	7.47	7.59	7.40	7.55	33.56	247.00
Non-Residential 20mm and vacant land	7.50	7.52	7.51	7.46	33.53	228.00
Non-Residential 25mm	7.49	7.49	7.54	7.46	33.52	358.00
Non-Residential 32mm	7.53	7.47	7.51	7.49	33.55	526.00
Non-Residential 40mm	7.51	7.48	7.50	7.51	33.54	813.00
Non-Residential 50mm	7.49	7.50	7.50	7.52	33.56	1,286.00
Non-Residential 80mm	7.50	7.50	7.50	7.50	33.55	3,297.00
Non-Residential 100mm	7.50	7.50	7.50	7.50	33.54	5,143.00
Non-Residential 150mm	7.50	7.50	7.50	7.50	33.55	12,247.00

Scenario 2 - No Special Rate Variation

Impact on Rates

This scenario is based on the rate peg amount only and is considered to be the minimal cost option. It does not provide sufficient funding to allow Council to provide the existing level of infrastructure services. The impacts on each rating category are contained in the following three (3) Tables:

Residential – 12,291 assessments - Worksheet 5A (Application Part A) details the impact on average rates with the special variation and without.

Table 1(b) - Impact on Rates – Residential

	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)
% increase with special variation	2.30	3.00	3.00	3.00
% cumulative increase	2.30	5.37	8.53	11.79
$ annual increase for average rate payer	19.18	25.61	26.37	27.16
$ weekly increase for average ratepayer	0.37	0.49	0.51	0.52

Worksheet 5B (Application Part A) details the impact on rates at various land value ranges. A total of 11,652 (94.80%) of residential ratepayers have a land value within the first three land value ranges. Annual increases across these three land value ranges are from a minimum of $13.52 to a maximum of $39.22 in year four for the land value amount of $250,000.

The same data as above including the special variation results in a minimum of $53.79 to a maximum of $146.38 in year three for the land value amount of $250,000.

Business – 813 assessments - Worksheet 5A (Application Part A) details the impact on average rates with the special variation and without.

Table 2(b) - Impact on Rates – Business

	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)
% increase with special variation	2.30	3.00	3.00	3.00
% cumulative increase	2.30	5.37	8.53	11.79
$ annual increase for average rate payer	45.22	60.33	62.13	64.00
$ weekly increase for average ratepayer	0.87	1.16	1.19	1.23

Worksheet 5B (Application Part A) details the impact on rates at various land value ranges. A total of 742 (91.27%) of business ratepayers have a land value within the first five land value ranges. Annual increases across these five land value ranges are from a minimum of $17.64 to a maximum of $111.56 in year four for the land value amount of $450,000.

The same data as above including the special variation results in a minimum of $71.75 to a maximum of $410.75 in year three for the land value amount of $450,000.

Farmland – 1,425 assessments - Worksheet 5A (Application Part A) details the impact on average rates with the special variation and without.

Table 3(b) - Impact on Rates – Farmland

	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	Year 4 (2017/18)
% increase with special variation	2.30	3.00	3.00	3.00
% cumulative increase	2.30	5.37	8.53	11.78
$ annual increase for average rate payer	36.45	48.65	50.11	51.60
$ weekly increase for average ratepayer	0.70	0.94	0.96	0.99

Worksheet 5B (Application Part A) details the impact on rates at various land value ranges. A total of 1,233 (86.53%) of farmland ratepayers have a land value between $100,000 and $599,999. Annual increases across these land value ranges are from a minimum of $21.67 to a maximum of $74.83 in year four for the land value amount of $550,000.

The same data as above including the special variation results in a minimum of $87.97 to a maximum of $275.64 in year three for the land value amount of $550,000.

The amounts and percentage increases for waste, water and sewer would be the same for this scenario as detailed for scenario 1 in Tables 4, 5 and 6 above.

Prioritisation of Proposed Spending

Council's four year Delivery Program 2013/2014 – 2017/2018 is provided in the supporting documentation. This plan details Council's services and works program for the corresponding period.

An infrastructure backlog of approximately $120.24 million (roads and bridges - $54.45 million) exists for all of Council's asset categories as reported in Special Schedule 7 of Council's Financial Statements for 2012/2013. This SRV is targeted at improving the road and bridge network of the Shire as highlighted as the number one priority in all community surveys undertaken.

Prioritisation criteria are applied to the respective projects to determine a program of works. The criteria applied to the planned asset improvement program primarily consider the assessed condition and known usage of the assets to be renewed, repaired or upgraded. This approach ensures that projects are programmed and prioritised on a needs and risk basis. The planned program is included in the Delivery Program and links to the LTFP as SRV scenario 1. In addition this SRV application if successful would fund the interest and principal loan repayments of loan funds for the Revitalising Kempsey's Business Corridor Project.

Table 7 - Works Program to be undertaken with proposed SRV

Works to be Undertaken	Cost ($)
Sealed Roads 2014/2015	
Plummers Lane (Summer Island Road to Rainbow Reach Road)	700,960
South West Rocks Road (Old Station Road to Pola Creek Road)	599,352
South West Rocks Road (McKays Lane to Frederickton Ferry Road)	150,000
South West Rocks Road (Frederickton Ferry Road to Austral Outer Eden Road)	501,302
Middleton Street (West Street to Vernon Street)	60,000
Edinburgh Lane (Tozer Street to Kemp Street)	89,000
Great North Road (Macleay Valley Way to Collombatti Road)	517,648
Crescent Head Road (Neville Morton Drive to Pacific Street)	778,668
Geoffrey O'Hea Street	175,000
Total Sealed Roads 2014/2015	**4,047,130**
Sealed Roads 2015/2016	
Arakoon Road (Lighthouse Road to Phillip Drive)	804,618
Armidale Road (Secombs Lane to Kesbys Road)	199,487
Kemp Street (Tozer Street to North Street)	791,395
Nance Road (South Street to Queen Street)	350,000
North Street (River Street to Forest Ave)	406,514
Queen Street (South Street to Nance Road)	300,000
Robert Gardem Place (North Street – end)	30,426
Short Street Kempsey (Dudley Street to Sea Street)	65,703
Parkins Place (Edgar Street – end)	32,190
Works to be Undertaken	**Cost ($)**
John Street Smithtown (Belmore Street –end)	45,859
Ocean Drive (Livingstone Street to South End)	69,230
Peter Mouatt (Hill Street to Pacific Street)	61,293
Meehan Close (Gregory Street – end)	25,134
Crescent Head Road (Seale Road to Beranghi Road)	975,986
Total Sealed Roads 2015	**4,157,838**

Sealed Roads 2016	
Armidale Road (Belgrave Street) Smith Street to John Street)	277,502
Armidale Road (Tozer Street) Elbow Street to River Street	102,364
Armidale Road (River Street) Elbow Street to North Street	936,390
Armidale Road (Sherwood Road to Hillview Drive)	831,940
Old Station Road (South West Rocks Road to Gorman Lane)	831,940
Clyde Street (Savages Lane to Stuart Street)	114,454
Cochrane Street (Kemp Street to North Street)	399,885
Gamack Street (Tozer Street – end)	37,393
Geoffrey Debenham Street (Smith Street – end)	41,699
Gill Street (Lord Street to Betts Street)	92,476
Laurels Ave (Union Lane – end)	50,948
Middleton Street (Macquarie Street to Lachlan Street)	127,605
North Street (Belmore Street to Mitchell Ave)	107,506
Short Street (end to Dudley Street)	135,654
Stuart Street (Forth Street to end)	187,326
East Street Crescent Head (Main Street to Korogora Street)	91,613
Elizabeth Street (Gregory Street to McIntyre	145,366
Entrance Street (Rudder Street to Quarry Street)	94,092
Edinburgh Street (High Street to Landsborough Street)	35,991
Wentworth Ave (Arthur Street – end)	56,890
Total Sealed Roads 2016	**4,537,668**
Sealed Roads 2017	
Armidale Road (Turners Flat Road to Bridge Eastern Approach)	1,246,955
Trial Bay Gaol Access Road (Cardwell Street – end)	827,422
South West Rocks Road (North Street to Smithtown Road)	132,288
Marsh Street (River Street to Kemp Street)	312,598
Tozer Street (Kemp Street to North Street)	1,294,157
Verge Lane (Verge Street to Elringtons Lane)	319,821
Verge Street Kempsey (Belgrave Street to Sydney Street)	137,738
Marine Parade (Nineteenth Ave to Kimpton Street)	424,773
Third Ave (Sixth Ave to end)	88,192
Total Sealed Roads 2017	**4,783,945**
Unsealed Roads 2014	
Blairs Lane	20,000
Dungay Creek Road	115,000
Verges Creek Road	224,400
Battles Outlet	70,000
Fishermans Reach Road	60,000
Old Station Road	125,000
West End Road	21,000
Sandy Creek Road	92,000
Total Unsealed Roads 2014	**727,400**

Works to be undertaken	Cost ($)
Unsealed Roads 2015	
Chain O Ponds Road	252,408
Collombatti Road	166,400
Crottys Lane	40,144
Inches Road	78,000
Mighells Road	150,800
Willi Willi Road	260,000
Total Unsealed Roads 2015	**947,752**
Unsealed Roads 2016	
Billybyang Creek Road (Hickeys Creek Road to End)	275,808
Dennis Road	254,176
Willi Willi Road (Turners Flat Road to Temagog Road)	551,616
Total Unsealed Roads 2016	**1,081,600**
Unsealed Roads 2017	
Belmore River Right Bank Road	149,213
Toose Road	50,619
Dennis Road (Mines Road to Mungay Creek Road)	104,669
Old Aerodrome Road (end)	58,493
Back Beach Road (end)	269,967
Chain O Ponds Road (Sauls Cowbails Road to Spooners Ave)	64,398
Sauls Cowbails Road (to Railway)	185,603
Railway Road (to Collombatti Road)	56,243
Temagog Road	84,365
Stony Creek Lane (to Moparrabah)	258,719
Total Unsealed Roads 2017	**1,282,289**
Bridges 2014/2015 – 2018/2019	
Belmore River Right Bank Road - McCuddens bridge	80,000
Dungay Creek Road - Gills Gully bridge	80,000
Turners Flat Road - Lovelocks bridge	100,000
Pee Dee Road - O'Sullivans bridge	200,000
Willi Willi Road - Home Gully bridge	230,000
Total Bridges 2014/2015	**690,000**
Austral Eden Outer Road - Andersons bridge	150,000
Nagles Falls Road - Nagles Falls bridge	230,000
Nulla Nulla Creek Road - Yellow Gully bridge	160,000
Total Bridges 2015/2016	**540,000**
Belmore River Left Bank Road - Buchanans bridge	300,000
Nulla Nulla Creek Road - McIntyres bridge	160,000
Kinchela Creek Left Bank Road - Knauers bridge	165,000
Total Bridges 2016/2017	**625,000**
Mooneba Road - Barking Dog bridge	225,000
Toms Gully Road - Kyles bridge	150,000
Schmidts Access Road - Schmidts bridge	320,000
Total Bridges 2018/2019	**695,000**

As previously mentioned in this application Council has received approval for an interest subsidy under round 2 of the Local Infrastructure Renewal Program. Works to the value of $5.6 million are currently being planned as follows:

Table 8 - Revitalising Kempsey's Business Corridor Project Costs

Precinct	Total Project Cost ($)
Southern Gateway	350,715
South Kempsey Village	1,200,031
Smith Street Kempsey	1,828,410
Belgrave Street Kempsey	805,893
Smith Street North Kempsey	430,725
The Straight	410,547
Frederickton	524,286
Total Cost	5,550,607

Cost estimates for the road works have been calculated using current industry standards and allowances for minimal consumer price index (CPI) increases, however in current economic conditions it is expected that materials required for works will increase the cost greater than CPI allowances.

As the proposed increase is for roads, bridges and the Revitalising Kempsey's Business Corridor Project the following matrix has been used to determine priorities. The extract below is derived from Council's Asset Management Plan. A copy of the full Plan can be viewed in the attached supporting documentation.

Methodology for assessment of priorities

Under any management system there is a need for determination of what works are to be undertaken and in which priority. This system needs to be transparent and clear to the community and consistently applied. This does not mean that the system should be followed in all instances. There will always be factors that are not covered in a generalised system, but any variations from the accepted methodologies should be able to be justified on clear grounds, showing the factors that are not covered in the prioritisation methodology. Council will use the same system of assessing its asset management priorities as it will use to assess its service provision. This will ensure that the decisions of where resources are allocated are done in an equitable and efficient way.

Within the asset classes there will be a number of factors that need to be taken into account in relation to the assessment protocols. These will vary for asset classes and within each asset class there will be a discussion of how the various aspects of the asset will relate to the overall methodology.

The system is based on the following factors:

Risk

Risk assesses the danger to the public that exists for the current condition or state of the asset in question. It is an indicator of the potential negative impacts of the users of assets should Council fail to make a change to the existing situation. Risk can relate to social, economic or environmental factors and as such all of these types of risk need to be assessed. In determining risk the factors that need to be considered are the level of risk and the likelihood of the occurrence. These are assessed on a scale of 1 to 5 using the methodology in Australian Standard AS360:2004. This creates a matrix that shows the resulting level of risk as follows:

Table 9 - Risk Assessment Matrix

Likelihood	Consequences				
	Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (A)	Moderate	High	High	Extreme	Extreme
Likely (B)	Moderate	Moderate	High	High	Extreme
Possible (C)	Low	Moderate	High	High	High
Unlikely (D)	Low	Low	Moderate	Moderate	High
Rare (E)	Low	Low	Moderate	Moderate	High

KEY:

Extreme An extreme risk requires immediate action as the potential could be devastating to the local government area,

High A high level of risk requires action as it has the potential to be damaging to the local government area.

Moderate Allocate specific responsibility to a moderate risk and implement monitoring or response procedures.

Low Treat a low level of risk with routine procedures.

To provide an indication of level of consequences that would trigger an assessment under the risk assessment matrix the following information is provided for each of the triple bottom line classifications.

Table 10 - Consequence of Impacts

Level	Environment	Social	Economic
Catastrophic (5)	Death of animals in large numbers, destruction of flora species, air quality requires evacuation, permanent and wide spread land or water contamination	Fatality	Business failure resulting in six months loss of earnings or costs OR Cost impact of over $100,000
Major (4)	Death or injury of individual animals, large scale injury, loss of keystone species and wide spread habitat destruction, air quality requires a safe haven or evacuation decision, remediation of land contamination only possible by a long term program	Permanent disability	Business failure resulting in 3-6 months delay and costs OR Cost impact of $50,000 to $100,000
Moderate (3)	Temporary reversible damage, loss of habitat and migration of animal population, plants unable to survive, air quality constitutes potential ling term health hazard, potential for damage to aquatic life, pollution requires physical removal, land contamination localised and can be quickly remediated	Medical treatment required	Business failure resulting in 1-3 months delay and costs OR Cost impact of $10,000 to $50,000
Minor (2)	Slight, quickly reversible damage to few species or ecosystem parts, animals forced to change living patterns, full natural range of plants unable to grow, air quality creates local nuisance, water pollution exceeds background levels for a short period	First aid assistance required	Business failure resulting in less than 1 months delay and costs OR Cost impact of $1,000 to $10,000
Insignificant (1)	Some minor adverse effects to a few species or ecosystem parts that are short term and immediately reversible	No significant injury	Business failure resulting in less than 1 weeks delay and costs OR Cost impact of less than $1,000

Once the required work on an asset has been assessed, including the impact of the proposed works on the risk Council will then provide a weighting against the risk component of the project. The following table shows the weighting that applies to each change in the level of risk.

Table 11 - Weighting Matrix for Risk Assessment

Future Current\	Low	Moderate	High	Extreme
Low	0	0	0	0
Moderate	25	0	0	0
High	60	40	0	0
Extreme	100	80	60	0

Nuisance

The area of nuisance targets the impact a failure to undertake work on Council's assets on the quality of life of the people using the asset. While risk focuses on the potential damage, nuisance focuses on the way a person's quality of life is impacted by the failure to undertake works. There are no standard that can be applied in assessing the level of nuisance, so the following is provided to give an indication of the way in which the community can expect Council to assess the level of nuisance in any instance.

Table 12 - Nuisance Factors

Level	Description
Extreme	Prevents people from being able to live life without significant detrimental damage to their health and well-being over a medium to long term period.
High	Has significant impact on the quality of life of people in a way that will have a negative impact over a medium period of time.
Moderate	Temporary revisable impact on quality of life that is localised and can be quickly remediated.
Low	Some minor adverse effects that are short term and do not create a lasting impact.

The weightings of the changes to the level of nuisance are the same as those used for the Risk factor.

Serviceability

This factor is looking at how well an asset meets the service that the community needs from it. It considers whether the work on the asset will provide any improvement to the level of service it can provide to the users of that asset.

Table 13 - Serviceability Factors

Impact	Description
Very High	Facility meets all reasonable needs for a range of uses including the designed function.
High	Meets all deigned needs and uses without any reasonable constraints.
Moderate	Able to achieve designed function, but cannot fully be utilised, such as minor functional loss or aesthetic issues existing.
Low	Provides no or very low ability to meet the need the asset was developed to cover.

The following table records the weightings that will be applied to any change in the serviceability that is provide to the community as a result of the works undertaken.

Table 14 - Serviceability weightings

Future Current\	Low	Moderate	High	Very High
Low	0	25	80	100
Moderate	0	0	40	60
High	0	0	0	25
Very High	0	0	0	0

Level of Benefit

The final factor assessed is the number of user benefits that will be provided through the works on the asset. Council needs to consider the relative value that the overall community will receive in assessing projects to ensure that where two projects would provide the same level of advantage, the one that provides that benefit to the largest part of the community should be prioritised first. Council's system captures the number of uses and the frequency of the uses to determine the annualised usage rate of the asset.

Usage is weighed in a directionally proportional system, where one point accrues for each one thousand users. To allow for increased simplicity the levels of usage have been split within 10 bands. This is to reflect that in most cases the true usage is not known accurately and as such there will be some degree of uncertainty. Based on this, use of exact usage is not likely to give a more accurate response, but would significantly increase the cost of seeking to verify that usage. The weighting of each band is based on the midpoint of that band. The bands used are:

Table 15 - Level of Usage Weighting

Priority Class	Level of Usage	Factor
P01	<10	0.01
P02	11 – 50	0.03
P03	51 -200	0.1
P04	201 – 500	0.3
P05	501 – 1,000	0.7
P06	1,001 – 5,000	3
P07	5,001 – 10,000	7
P08	10,001 – 15,000	12
P09	15,001 – 20,000	17
P10	> 20,000	25

To ensure equity Council's level of usage is based on annualised usage. Factors allow conversion of usage on other frequencies into an annualised figure. These conversions are provided to assist people in determining the annualised usage.

Table 16 - Period of Usage Weighting

Period of Use	Factor
Daily	365

Weekly	52
Fortnightly	26
Monthly	12
Quarterly	4
Semi-Annual	2
Annual	1
1 – 5 years	0.4
6 – 10 years	0.1333
11 – 20 years	0.06667
21 – 50 years	0.0333
Greater than 50 years	0.01428

These primary factors have been used to determine priorities this methodology has been presented at community consultations as the means of what road works will be undertaken.

5.1.1 Minimum Rates

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

Does the council have minimum rates? Yes ☐ No X

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

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

5.2 Affordability and community capacity to pay

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

To gain an understanding of the level of impact on the community and their capacity to pay, Council has considered a range of indicators. This looks at the overall capacity to pay and the relative capacity of this community in respect to other local government areas.

Kempsey Shire is a relatively low socio economic shire with pockets of significant disadvantage and some areas of affluence. (A lower score on the index means a higher level of disadvantage and a higher score on the index means a lower level of disadvantage). In 2011 Kempsey Shire had a Socio-Economic Indexes for Areas (SEIFA) Index of disadvantage score of 879.72. The least disadvantaged areas are Euroka (1,090.47), Arakoon (1,049.91), Verges Creek (1,030.59) and part of South West Rocks (1,027.28).

The communities in parts of West Kempsey and South Kempsey with a SEIFA score of 339.40 and 563.64 respectively are the most disadvantaged.

Socio-Economic Indexes for Areas (SEIFA) Index of Disadvantage

The SEIFA index of disadvantage measures the relative level of socio-economic disadvantage based on a range of Census characteristics that reflect disadvantage such as income, educational attainment, employment, unemployment and jobs in skilled or unskilled occupations.

In 2006 Kempsey Shire had a SEIFA score of 900.64 which reduced to 879.72 (2.32%) in 2011. This score is significantly lower than all Group 4 Councils in the comparison group in the Table below.

Table 17 - SEIFA Index Comparison

	Group 4 Councils					Regional Comparison	
SEIFA Index of Disadvantage	Kempsey LGA	Armidale Dumaresq LGA	Griffith LGA	Goulburn Mulwaree LGA	Singleton LGA	Mid North Coast Region	Inner Regional NSW
2006 Score	900.64	994.31	982.62	961.66	1016.61		
2011 Score	879.72	986.93	963.67	951.42	1031.02	930.40	973.30
Percentage Change	(2.32%)	(0.74%)	(1.93%)	(1.06%)	1.42%		

Source: Australian Bureau of Statistics 2006 and 2011 Census of Population and Housing and id (informed decisions)

In 2006 Kempsey Shire had a SEIFA score of 900.64 which reduced to 879.72 (2.32%) in 2011. This score is considerably lower than those of neighbouring Councils excluding the Nambucca LGA who we were on par with in the 2006 census. Kempsey Shire also recorded the second largest percentage reduction (2.32%), faring only better than the Greater Taree LGA (3.00%) between the two periods.

Table 18 - SEIFA Index Comparison to Neighbouring Councils

	Neighbouring Councils						
SEIFA Index of Disadvantage	Kempsey LGA	Port Macquarie Hastings LGA	Nambucca LGA	Bellingen LGA	Coffs Harbour LGA	Greater Taree LGA	Mid North Coast Region
2006 Score	900.64	975.51	902.79	954.70	963.79	941.94	
2011 Score	879.72	968.92	899.95	950.10	958.40	913.67	930.40
Percentage Change	(2.32%)	(0.68%)	(0.31%)	(0.48%)	(0.56%)	(3.00%)	

Source: Australian Bureau of Statistics 2006 and 2011 Census of Population and Housing and id (informed decisions).

The following Table details the SEIFA score for small areas within the Kempsey Shire.

Table 19 - SEIFA Index for Kempsey Small Areas

Small Area/Suburb	2011 Index	Decile
Aldavilla (2 areas)	925.26 - 991.81	2 - 4
Arakoon (2 areas)	1021.55 - 1047.91	6 – 7
Bellbrook	805.40	1
Belmore River	985.56	4
Burnt Bridge	700.01	1
Clybucca	942.93	3
Collombatti (2 areas)	900.59 - 936.38	2 – 3
Crescent Head (5 areas)	908.00 – 1016.55	2 – 5
Dondingalong (2 areas)	889.52 – 967.28	2 – 3
East Kempsey (4 areas)	853.66 – 904.32	1 – 2
Euroka	1090.47	9
Fishermans Reach	919.03	2
Frederickton (4 areas)	818.28 – 982.28	1 – 4
Gladstone	939.93	3
Greenhill	844.43	1
Hat Head	934.58	3
Hickeys Creek	877.59	2
Jerseyville	967.79	3
Kempsey	753.74	1
Kinchela	905.49	2
Kundabung	962.75	3
Mooneba	937.86	3
Sherwood	1000.82	5
Smithtown (2 areas)	882.01 – 892.40	2
South Kempsey (6 areas)	563.64-921.14	1 - 2
South West Rocks (12 areas)	828.41 – 1027.78	1 – 6
Stuarts Point (3 areas)	752.28 – 881.76	1 - 2
Temagog	930.09	2
Verges Creek	1030.59	6
West Kempsey (12 areas)	339.40 – 944.04	1 - 3
Willawarrin	808.54	1
Wittitrin	836.74	1
Yarrahapinni	950.09	3
Yarravel (3 areas)	915.71 – 1002.92	2 – 5

Source: Australian Bureau of Statistics 2006 and 2011 Census of Population and Housing.

Despite this relatively low SEIFA score the following demographic and rating profile for Kempsey Shire suggests that our community has the capacity to pay the proposed rate increase. The impact of the recommended rate variation proposal will result in an increase of $4.13 per week for the average residential rate (4 year average).

Key factors that demonstrate Kempsey community's capacity to pay the proposed increase include:

- Whilst Kempsey Shire has the second lowest weekly household income level when compared to Councils in the mid-north coast region and Inner Regional NSW the percentage income required per week to pay rates is significantly lower compared to that of neighbouring councils. (Refer to Tables 26 and 27)

- Compared to neighbouring Councils (Port Macquarie-Hastings, Nambucca, Coffs Harbour, Bellingen and Greater Taree) Kempsey has lower average residential rates and farmland rates. Kempsey also has lower average business rates other than Bellingen. (Refer to Table 21)

- Compared to neighbouring Councils (Port Macquarie-Hastings, Nambucca, Bellingen and Greater Taree) Kempsey has a comparable pensioner rebate profile percentage. (Refer to Table 23)

- In 2010/2011 Kempsey Shires outstanding rates and annual charges ratio was 4.86%. This result is low in comparison to similar Group 4 and Neighbouring Councils and is below the NSW average. (Refer to Tables 24 and 25)

- The labour force participation rate of the population in Kempsey shows the rate is similar to that of the Mid North Coast Region and ranks fourth out of six of neighbouring councils. (Refer to Table 30)

- The relative household income level for the Kempsey Shire has improved for the bottom eight income bands between 2006 and 2011. In 2011 for the bottom eight income bands Kempsey had 66.49% of households earning up to $1,250 per week compared to 62.51% of households earning up to $999 per week in 2006. (Refer to Table 28)

- The Kempsey LGA has the lowest median weekly rent when compared to neighbouring councils with the median monthly housing loan repayment higher than Nambucca LGA, the same as Bellingen LGA and Greater Taree LGA whilst being significantly lower than Port Macquarie- Hastings LGA and Coffs Harbour LGA as well as the Mid North Coast Region. (Refer to Table 32)

Average Rate per Assessment

Kempsey Shire has 14,500 assessments which include Council owned properties. The average rate per assessment indicator highlights the relative level of a Council's residential, farmland and business rates. It does not include water, sewer or domestic waste management charges. The formula used for this indicator is:

$$\frac{\text{Total residential/farmland/business rate revenue}}{\text{Number of residential/farmland/business assessments}}$$

The following table compares Kempsey Shire to other Group 4 Councils with a similar population size. This comparison shows the average rate in each category is lower in Kempsey Shire than each of the other Councils except for Singleton in relation to Farmland and Business rates. In addition the average rate in each category in Kempsey Shire is well below the Group 4 average and NSW average.

Table 20 - Average Rate per Assessment Comparison

	Group 4 Councils					Comparison	
2011/2012 average rate per assessment ($)	Kempsey LGA	Armidale Dumaresq LGA	Griffith LGA	Goulburn Mulwaree LGA	Singleton LGA	Group 4 Comparison	NSW Average
Residential	668.22	827.01	807.66	795.74	669.32	836.70	837.02
Farmland	1,307.64	2,312.22	3,031.71	1,456.86	1,240.62	1,733.41	2,021.73
Business	1,464.02	3,046.79	2,083.18	4,472.19	1,351.72	2,982.91	4,426.12

Source: Division of Local Government Comparative Information on NSW Councils Time Series Data 2011/2012.

A further relevant comparison to the Group comparison in the above Table is to compare the average rates to neighbouring Councils who are dealing with similar challenges as Kempsey Shire such as ageing populations, climate change, sea change, ageing infrastructure and population growth.

This comparison shows the average rates in Kempsey Shire are lower in all rating categories except Bellingen in the Business rating category.

Table 21 - Average Rate per Assessment Comparison to Neighbouring Councils

	Neighbouring Councils						
2011/2012 average rate per assessment ($)	Kempsey LGA	Port Macquarie Hastings LGA	Nambucca LGA	Bellingen LGA	Coffs Harbour LGA	Greater Taree LGA	NSW Average
Residential	668.22	907.27	736.15	779.21	804.18	788.18	837.02
Farmland	1,307.64	1,583.46	1,566.12	1,693.58	1,462.94	1,355.09	2,021.73
Business	1,464.02	3,000.48	1,489.43	899.74	3,589.73	2,740.25	4,426.12

Source: Division of Local Government Comparative Information on NSW Councils Time Series Data 2011/2012.

Pensioner Rebates

The following table compares Kempsey Shire to other Group 4 Councils with a similar population size. This comparison shows the pensioner rebate percentage is significantly higher in Kempsey Shire than each of the other Council LGA's. This fact could be attributed to retirees generally relocate to coastal areas as evidenced in table 23.

Table 22 - Pensioner Rebate percentage Comparison

	Group 4 Councils					Comparison
Pensioner Rebate (%)	Kempsey LGA	Armidale Dumaresq LGA	Griffith LGA	Goulburn Mulwaree LGA	Singleton LGA	Group 4 Comparison
2011/2012	30.50	16.30	17.80	19.50	13.70	21.40

Source: Division of Local Government Comparative Information on NSW Councils 2011/2012

A further relevant comparison to the Group comparison in the above Table is to compare the average rates to neighbouring Councils who are dealing with similar challenges as Kempsey Shire such as ageing populations, climate change, sea change, ageing infrastructure and population growth.

This comparison shows the pensioner rebate percentage is similar across the mid-north coast with the exclusion of the Coffs Harbour LGA. Kempsey Shire has the second highest pensioner rebate percentage at 30.50% behind Nambucca LGA (35.10%) and comparable to Port Macquarie-Hastings LGA (29.10%), Greater Taree LGA (29.00%) and Bellingen LGA (27.00%). The pensioner rebate percentage of neighbouring Councils aligned with the average residential rate for neighbouring Councils demonstrates this is not a factor in the community's capacity to pay.

Table 23 - Pensioner Rebate percentage Comparison to Neighbouring Councils

Neighbouring Councils						
Pensioner Rebate (%)	Kempsey LGA	Port Macquarie Hastings LGA	Nambucca LGA	Bellingen LGA	Coffs Harbour LGA	Greater Taree LGA
2011/2012	30.50	29.10	35.10	27.00	21.20	29.00

Source: Division of Local Government Comparative Information on NSW Councils 2011/2012

Outstanding Rates and Annual Charges

This indicator assesses the impact of uncollected rates and annual charges on liquidity and the effectiveness of a council's debt recovery.

Rates and annual charges are levied at the beginning of the financial year which can be paid in a single instalment or on four equal instalments due on 31 August, 30 November, 28 February and 31 May each year.

The lower the percentage the less income is tied up in receivables and the better the cash flow is available for council uses, although the interest rate percentage allowed by the Division of Local Government to be charged on outstanding rates and annual charges is usually well in excess of the interest rate able to be earned on investments. The formula used for this indicator is:

$$\frac{\text{Outstanding rates and annual charges x 100}}{\text{Annual revenue from rates and annual charges collectable}}$$

The level of Councils outstanding rates and annual charges also provides evidence of a community's capacity to pay a proposed rate increase with a lower ratio indicating a better capacity to pay. In 2012/2013 the ratio for Kempsey Shire was 5.40% compared to 6.29% in 2011/2012.

The Table below provides a comparison of outstanding rates and annual charges between Kempsey Shire and other similar Group 4 councils for the past two years. The ratio for Kempsey Shire in 2010/2011 and 2009/2010 was 4.86% and 4.62% respectively which is the second lowest ratio for each year when compared to these councils for the past two years.

Table 24 - Outstanding Rates and Annual Charges Comparison

Group 4 Councils						Comparison	
Outstanding rates and annual charges (%)	Kempsey LGA	Armidale Dumaresq LGA	Griffith LGA	Goulburn Mulwaree LGA	Singleton LGA	Group 4 Comparison	NSW Average
2010/2011	4.86	8.47	8.59	6.36	3.16	5.90	5.26
2009/2010	4.62	9.84	8.11	8.06	3.14	5.85	5.31

Source: Division of Local Government Comparative Information on NSW Councils 2010/2011 and 2009/2010.

A further relevant comparison to the Group comparison in the above Table is to compare the outstanding rates and annual charges ratio to neighbouring Councils who are dealing with similar challenges as Kempsey Shire such as ageing populations, climate change, sea change, ageing infrastructure and population growth. This comparison shows the outstanding rates and annual charges ratios in Kempsey Shire are lower when compared to all neighbouring councils on the Mid-North Coast.

Table 25 - Outstanding Rates and Annual Charges Comparison to Neighbouring Councils

Neighbouring Councils							
Outstanding rates and annual charges (%)	Kempsey LGA	Port Macquarie Hastings LGA	Nambucca LGA	Bellingen LGA	Coffs Harbour LGA	Greater Taree LGA	NSW Average
2010/2011	4.86	8.70	6.16	7.24	6.12	6.16	5.26
2009/2010	4.62	8.39	5.79	9.13	5.65	6.44	5.31

Source: Division of Local Government Comparative Information on NSW Councils 2010/2011 and 2009/2010.

Council's Recovery of Unpaid Debts, Rates and Charges procedure (5.4.1) allows where a pensioner pays the current ordinary rate, special rates, water access charge, sewer availability charge and domestic waste management service charge by 31 May of the current year and no prior year's amounts are outstanding, the current interest shall be written off.

Household Income

The median weekly household income level for Kempsey of $748 per week is significantly lower than similar sized Group 4 NSW Councils and that of Inner Regional NSW ($961 per week) whilst being marginally lower (3.36%) when compared to neighbouring Mid North Coast Council areas ($774 per week).

Based on the median weekly household income amount Kempsey Shire residents would be spending 1.72% of their median annual income to pay the average residential rate in 2012. This is compared to Armidale Dumaresq LGA (1.60%), Griffith LGA (1.46%), Goulburn-Mulwaree LGA (1.56%) and Singleton LGA (0.76%).

Table 26 - Comparison of Weekly Household Income Levels

	Group 4 Councils					Regional Comparison	
Weekly Household Income	Kempsey LGA (%)	Armidale Dumaresq LGA (%)	Griffith LGA (%)	Goulburn Mulwaree LGA (%)	Singleton LGA (%)	Mid North Coast Region (%)	Inner Regional NSW (%)
Negative/Nil	1.02	1.16	1.37	1.03	0.92	1.06	1.04
$1-$199	2.17	1.99	2.00	1.76	1.38	2.03	1.67
$200-$299	4.48	3.53	3.37	3.79	2.26	3.95	3.31
$300-$399	10.99	7.70	6.67	8.85	4.90	10.45	8.29
$400-$599	16.52	11.05	10.58	12.08	6.92	16.14	12.52
$600-$799	12.66	10.72	9.80	9.70	5.84	12.82	10.50
$800-$999	10.25	8.98	8.41	8.45	5.77	10.24	9.12
$1,000-$1,249	8.40	8.53	8.44	8.36	5.67	7.94	8.09
$1,250-$1,499	6.17	7.11	8.52	6.96	6.23	6.48	7.09
$1,500-$1,999	7.62	10.87	12.10	11.12	11.63	8.04	10.16
$2,000-$2,499	4.19	7.06	7.67	7.43	7.31	4.50	6.61
$2,500-2,999	2.68	5.13	4.67	4.82	14.08	2.99	5.04
$3,000-$3,499	1.11	3.12	2.67	3.07	7.36	1.70	3.08
$3,500-$3,999	0.38	1.25	1.16	0.99	3.51	0.57	1.18
$4000 or more	0.57	1.44	1.37	1.32	5.08	0.76	1.67
Incomplete Information	10.79	10.36	11.20	10.27	11.14	10.33	10.63
Median Weekly Household Income	$748	$991	$1,065	$981	$1,692	$774	$961

Source: Australian Bureau of Statistics 2011 Census of Population and Housing.

The median weekly household income level for Kempsey of $748 per week is the second lowest when compared to neighbouring Councils although only 3.36% lower than the median weekly household income level of the Mid North Coast Region ($774 per week).

Based on the median weekly household income amount Kempsey Shire residents would be spending 1.72% of their median annual income to pay the average residential rate in 2012. This is compared to Port Macquarie-Hastings LGA (2.08%), Nambucca LGA (2.02%), Bellingen LGA (1.90%), Coffs Harbour LGA (1.71%) and Greater Taree LGA (2.33%).

Kempsey Shire has 66.49% of households in the bottom eight income bands of the following Table. This compares to Port Macquarie-Hastings LGA (61.36%), Nambucca LGA (70.53%), Bellingen LGA (64.00%), Coffs Harbour LGA (58.57%), Greater Taree LGA (65.07%) and the Mid North Coast Region (64.63%).

Kempsey Shire has 18.66% of households in the bottom four income bands of the following Table. This compares to Port Macquarie-Hastings LGA (15.75%), Nambucca LGA (20.44%), Bellingen LGA (16.89%), Coffs Harbour LGA (14.77%), Greater Taree LGA (18.01%) and the Mid North Coast Region (17.49%).

These comparisons demonstrate that residents of the Kempsey Shire have the capacity to absorb a SRV of the magnitude detailed in this submission. The percentage of the median annual income is significantly lower than the majority of neighbouring Councils whilst the percentage of households in the lower income bands is comparable to the majority of neighbouring Council LGAs with the exception of Port Macquarie-Hastings and Coffs Harbour.

Table 27 - Comparison of Weekly Household Income Levels to Neighbouring Councils

Neighbouring Councils							
Weekly Household Income	Kempsey LGA (%)	Port Macquarie Hastings LGA (%)	Nambucca LGA (%)	Bellingen LGA (%)	Coffs Harbour LGA (%)	Greater Taree LGA (%)	Mid North Coast Region (%)
Negative/Nil	1.02	0.97	1.04	1.20	0.98	1.08	1.06
$1-$199	2.17	1.86	2.05	2.12	1.52	2.09	2.03
$200-$299	4.48	3.44	4.92	4.01	3.82	4.20	3.95
$300-$399	10.99	9.48	12.43	9.56	8.45	10.64	10.45
$400-$599	16.52	15.13	17.71	15.71	13.78	15.96	16.14
$600-$799	12.66	12.28	13.84	12.48	11.34	12.83	12.82
$800-$999	10.25	10.23	10.65	10.70	9.78	9.88	10.24
$1,000-$1,249	8.40	7.97	7.89	8.22	8.90	8.39	7.94
$1,250-$1,499	6.17	6.83	5.70	6.43	7.05	6.70	6.48
$1,500-$1,999	7.62	8.78	6.96	8.28	9.93	8.25	8.04
$2,000-$2,499	4.19	5.23	3.27	4.59	6.38	4.71	4.50
$2,500-2,999	2.68	3.72	1.81	2.63	3.80	2.53	2.99
$3,000-$3,499	1.11	2.33	1.08	1.66	2.19	1.49	1.70
$3,500-$3,999	0.38	0.83	0.18	0.42	0.82	0.50	0.57
$4000 or more	0.57	0.96	0.70	0.62	1.06	0.57	0.76
Incomplete Information	10.79	9.96	9.77	11.37	10.20	10.18	10.33
Median Weekly Household Income	$748	$837	$700	$787	$902	$770	$774

Source: Australian Bureau of Statistics 2011 Census of Population and Housing.

In 2011 residents required 1.67% of their median annual household income to pay the average rate in the Kempsey Shire. This is compared 1.71% of their median annual household income to pay the average residential rate of $545.61 in 2005/2006.

In 2011 for the bottom eight income bands Kempsey had 66.49% of households earning up to $1,250 per week compared to 62.51% of households earning up to $999 per week in 2006. This demonstrates a slight upwards trend in household income levels at the eight lower income bands over the past five years.

Whilst conversely in 2011 for the bottom four income bands Kempsey had 18.66% of households earning up to $399 per week compared to 22.07% of households earning up to $349 per week in 2006. This demonstrates a slight downwards trend in household income levels at the four lower income bands over the past five years.

Table 28 - Comparison of Weekly Household Income Levels for Kempsey Shire between 2006 and 2011

Weekly Household Income 2011	Kempsey LGA - 2011 (%)	Weekly Household Income 2006	Kempsey LGA - 2006 (%)
Negative/Nil	1.02	Negative/Nil	0.93
$1-$199	2.17	$1-$149	1.88
$200-$299	4.48	$150-$249	8.43
$300-$399	10.99	$250-$349	10.83
$400-$599	16.52	$350-$499	10.24
$600-$799	12.66	$500-$649	15.86
$800-$999	10.25	$650-$799	7.44
$1,000-$1,249	8.40	$800-$999	6.90
$1,250-$1,499	6.17	$1,000-$1,199	10.43
$1,500-$1,999	7.62	$1,200-$1,399	4.38
$2,000-$2,499	4.19	$1,400-$1,699	4.27
$2,500-2,999	2.68	$1,700-$1,999	2.78
$3,000-$3,499	1.11	$2,000-$2,499	2.44
$3,500-$3,999	0.38	$2,500-$2,999	1.32
$4000 or more	0.57	$3000 or more	0.86
Incomplete Information	10.79	Incomplete Information	11.01
Median Weekly Household Income	$748	Median Weekly Household Income	$614

Source: Australian Bureau of Statistics 2006 and 2011 Census of Population and Housing.

The above comparisons demonstrate that residents of the Kempsey Shire have the capacity to absorb the required SRV when compared to the level of rate impost of neighbouring Councils and those on the Mid North Coast.

The proposed increase of 7.00% above the rate pegging limit over the next three years (2014/2015, 2015/2016 and 2016/2017) and 1.00% above the rate pegging limit in the fourth year (2017/2018) would increase the rate burden (residential rate category) by an additional $4.13 per week ($214.84 per annum) by 2017/2018.

If this amount had of been levied in 2011/2012 the average residential rate would have been $884.02 which would have equated to 2.27% of the median weekly household income being required to pay the average residential rate in 2012. This average rate and percentage would see Kempsey Shire above all neighbouring Council's except Greater Taree.

Increases above the rate peg limit were granted to the following Council's in the comparison sample. These increases have not been factored into the analysis and in some instances would further widen the gap between that charged by Kempsey Shire and those Councils.

- Kempsey Shire Council 7.77% permanent
- Nambucca Shire Council 6.44% permanent
- Port Macquarie-Hastings Council 7.30% permanent and 4.43% temporary (5 years)

In addition, effective for the 2012/2013 Coffs Harbour received a 2.04% increase above the rate peg limit by extending by one year a CBD special rate. This was further extended in 2013/2014 when Coffs Harbour received a 2.03% increase above the rate peg limit by extending for ten years this CBD special rate.

Also it is noted that the following council's in the comparison sample have indicated they will be lodging an SRV application for the 2014/2015 financial year:

- Armidale Dumaresq Council 20.00% for 7 years
- Greater Taree City Council 5.00% for 5 years (environmental levy)
- Coffs Harbour City Council 7.90% (2014/2015), 8.14% (2015/2016) and 7.75% (2016/2017) permanent
- Bellingen Shire Council 8.40%, or 11.90% or 17.40% permanent
- Nambucca Shire Council 5.30% (2014/2015) and 6.00% (2015/2016) permanent
- Singleton Council 7.30% (2014/2015) permanent

Employment Status

The employment status is a measure of labour force participation and refers to the proportion of the population over 15 years of age that was employed or actively looking for work.

Analysis of the labour force participation rate of the population in the Kempsey Shire shows there is a lower proportion in the labour force (91.12%) compared to Group 4 councils in the sample of similar sized Councils and Inner Regional NSW. The labour force participation rate is similar to that of the Mid North Coast Region (91.80%).

Table 29 - Comparison of Employment Status

	Group 4 Councils					Regional Comparison	
Employment Status	Kempsey LGA (%)	Armidale Dumaresq LGA (%)	Griffith LGA (%)	Goulburn Mulwaree LGA (%)	Singleton LGA (%)	Mid North Coast Region (%)	Inner Regional NSW (%)
Full-time Employed	48.54	54.69	60.52	59.64	65.02	50.28	56.12
Part-time Employed	35.69	32.24	28.07	28.83	25.38	35.36	31.72
Hours worked not Stated	6.89	5.70	6.50	5.78	6.26	6.16	6.08
Employed	91.12	92.63	95.09	94.25	96.66	91.80	93.92
Unemployed	8.88	7.37	4.91	5.75	3.34	8.20	6.08

Source: Australian Bureau of Statistics 2011 Census of Population and Housing.

Analysis of the labour force participation rate of the population with neighbouring Councils and Kempsey Shire shows a strong correlation between the employed and unemployed rate across the region with Kempsey Shire ranked fourth of six of the sample size. This similarity further demonstrates that residents of Kempsey Shire would have the capacity to afford the proposed SRV contained in this application.

In further support of the affordability of the SRV the employment status of employed people in the Kempsey Shire in 2006 was 88.27% (2011 – 91.12%) compared to the unemployed rate of 11.73% (2011 – 8.88%). Between 2006 and 2011 the number of people in the workforce in Kempsey Shire showed an increase of 338 whilst he total labour force increased by only 51.

Table 30 - Comparison of Employment Status to Neighbouring Councils

	Neighbouring Councils						
Employment Status	Kempsey LGA (%)	Port Macquarie Hastings LGA (%)	Nambucca LGA (%)	Bellingen LGA (%)	Coffs Harbour LGA (%)	Greater Taree LGA (%)	Mid North Coast Region (%)
Full-time Employed	48.54	52.25	46.35	46.36	50.60	50.39	50.28
Part-time Employed	35.69	35.15	36.93	40.18	35.02	34.03	35.36
Hours worked not Stated	6.89	5.70	5.99	5.47	6.09	6.32	6.16
Employed	91.12	93.10	89.27	92.01	91.71	90.74	91.80
Unemployed	8.88	6.90	10.73	7.99	8.29	9.26	8.20

Source: Australian Bureau of Statistics 2011 Census of Population and Housing.

Mortgage and Rental

Analysis of the weekly median rental payments in the Kempsey Shire shows this amount is comparative when compared to Group 4 councils in the sample of similar sized Councils excluding the Singleton LGA and Inner Regional NSW who are both significantly higher.

On the other hand monthly housing loan repayments are considerably lower in the Kempsey Shire.

Table 31 - Comparison of Median Rent and Median Housing Loan Repayment

	Group 4 Councils					Regional Comparison	
Housing Tenure	Kempsey LGA ($)	Armidale Dumaresq LGA ($)	Griffith LGA ($)	Goulburn Mulwaree LGA ($)	Singleton LGA ($)	Mid North Coast Region ($)	Inner Regional NSW ($)
Median Weekly Rent ($)	190	200	180	185	260	210	220
Median Monthly Housing Loan Repayment ($)	1,300	1,441	1,517	1,517	2,000	1,412	1,560

Source: Australian Bureau of Statistics 2011 Census of Population and Housing.

Analysis of the weekly median rental payments in the Kempsey Shire shows this amount is the lowest when compared with neighbouring councils on the mid-north coast.

In addition monthly housing loan repayments are considerably lower in the Kempsey Shire compared to Port Macquarie-Hastings LGA and Coffs Harbour LGA as well as that of the mid-north coast region. Monthly housing loan repayments are the same for Bellingen LGA and Greater Taree LGA whilst being marginally above Nambucca LGA.

Table 32 - Comparison of Median Rent and Median Housing Loan Repayment to Neighbouring Councils

	Neighbouring Councils						
Housing Tenure	Kempsey LGA ($)	Port Macquarie Hastings LGA ($)	Nambucca LGA ($)	Bellingen LGA ($)	Coffs Harbour LGA ($)	Greater Taree LGA ($)	Mid North Coast Region ($)
Median Weekly Rent ($)	190	250	195	225	250	200	210
Median Monthly Housing Loan Repayment ($)	1,300	1,650	1,200	1,300	1,575	1,300	1,412

Source: Australian Bureau of Statistics 2011 Census of Population and Housing.

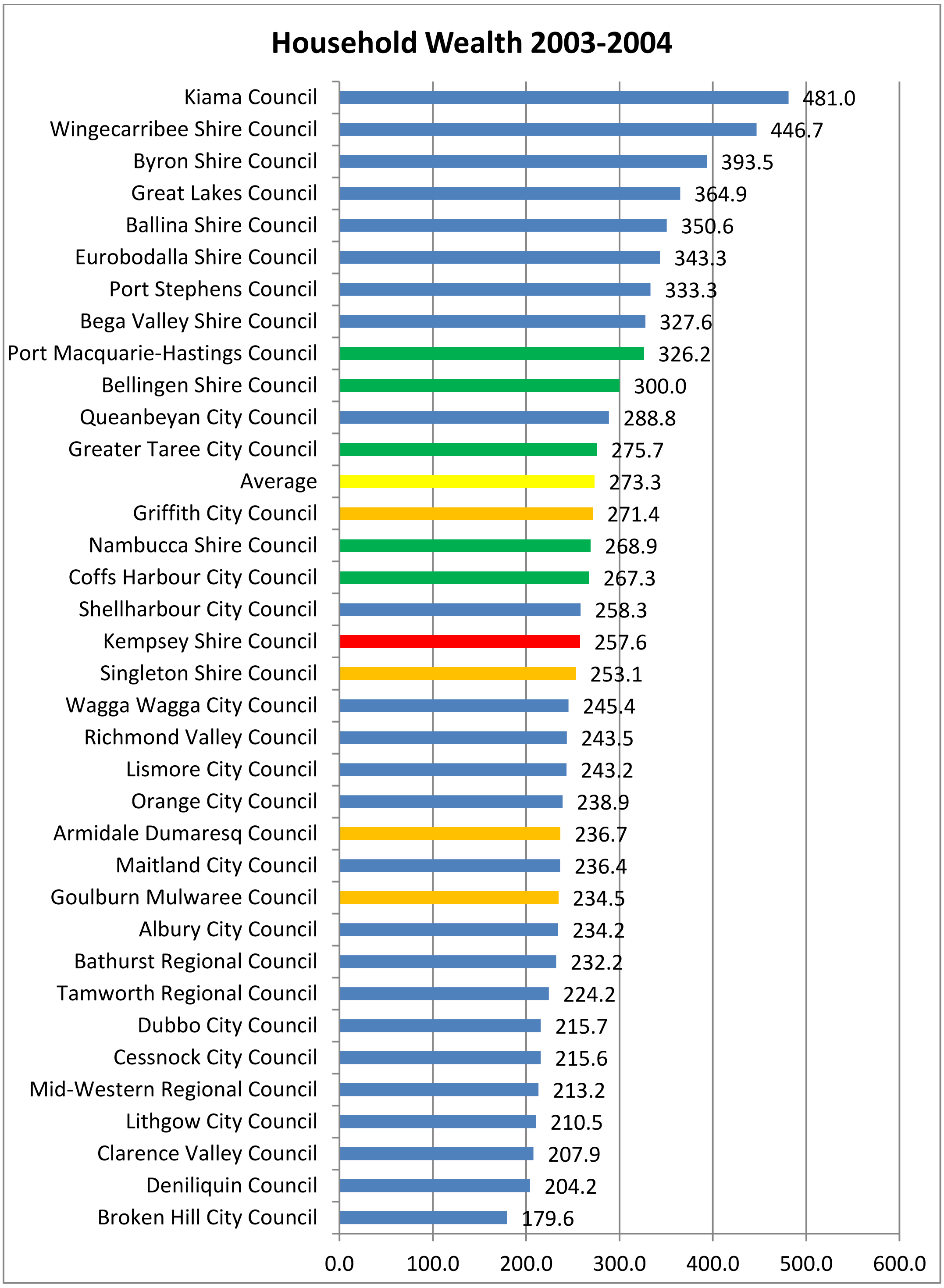
<u>Household Wealth</u>

Analysis of the overall community wealth relative to other communities was undertaken. Wealth is seen as a better long term indicator of the ability of the community to pay, but is limited by the fact that significant portions of the assets of the individuals are not highly liquid, such as their housing. As such, it is difficult not to also look at the shorter term indicator of income levels to also address the capacity to pay.

The following table compares Kempsey Shire (red) to neighbouring Councils (green) Group 4 Councils with similar population size (gold) and other Group 4 Councils (blue) in the Division of Local Government's comparative data groupings. From the data available, when compared to a selection of comparable local government areas, the wealth of the Kempsey Shire community is 5.74% lower than the average.

In addition, this comparison shows the average household wealth for Kempsey Shire has greater average household wealth than Group 4 Councils of a similar population size except for Griffith City whilst being the lowest average household wealth when compared to neighbouring Councils on the Mid-North Coast.

Graph 10 - Household Wealth 2003-2004

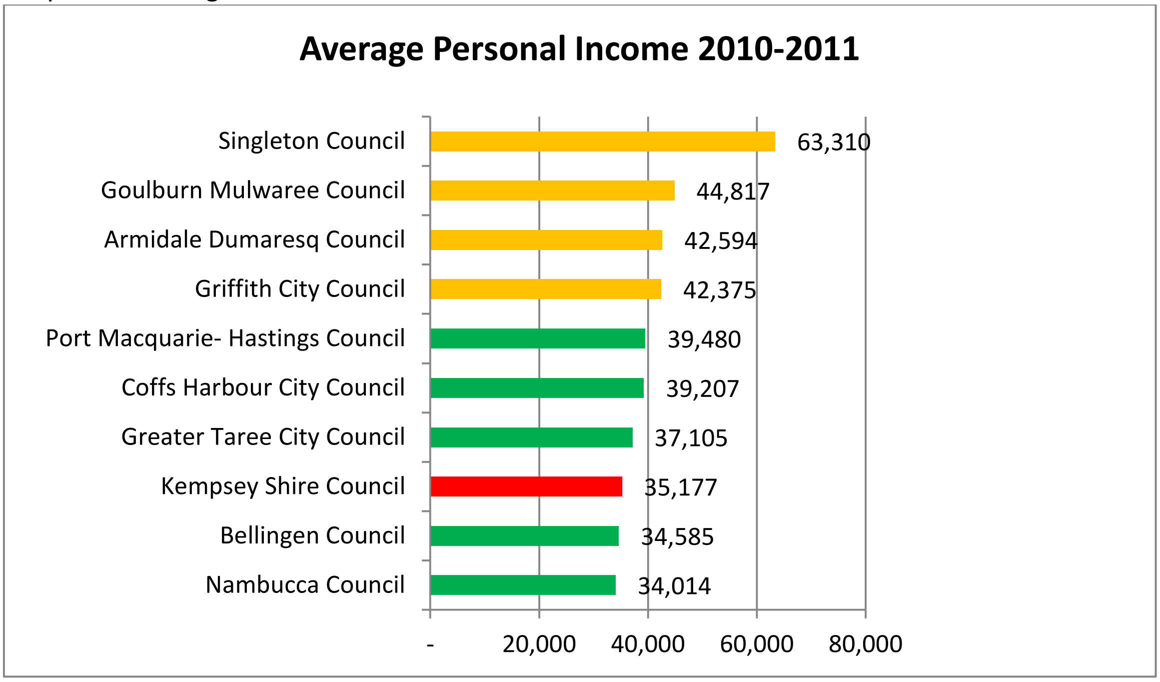


Source: BITRE's Household Wealth Database – Local Government Areas ABS Survey of Income and Housing 2003-2004.

As part of the development of the Economic Development Strategy of Council there was significant research into the sources of income within the community. The Estimates of Personal Income for Small Areas, Time Series Data for 2010/2011 was been used to show the income levels for the range of Neighbouring Councils and Group 4 Councils with a similar population size.

The following table shows a simple comparison between the incomes in Kempsey with the average for the other councils. The income types exclude government pensions and allowances, which are the same for all local government areas. The data shows that overall there are lower levels of income in the Kempsey Shire excluding the Neighbouring Councils of Bellingen and Nambucca. The notable exception is with superannuation and annuity income and other income, both of which are above the averages of the selected group, which is seen to be indicative of a significant group of self-funded retirees that are generally found in coastal regions.

Graph 11 - Average Personal Income



Source: ABS Estimates of personal Income for Small Areas (excluding Government pensions and Allowances) 2010-2011

5.3 Other factors in considering reasonable impact

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

Commercial and Public Sector Investment

Kempsey Shire has benefitted from the surge in public sector investment in recent years with the Pacific Highway Upgrade, specifically the Kempsey bypass. This work commenced in 2010 and is set to continue with the Frederickton to Eungai section and Port Macquarie to Kempsey section upgrades set to continue over the next few years. This work led to the engagement of skilled and unskilled labour from the area as well as an injection into the local economy through housing rental as well as general spending throughout business in the local government area. The unemployment rate decreased from 11.73% in 2006 to 8.88% in 2011

5.3.1 Addressing hardship

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

A copy of the Hardship Relief to Ratepayers procedure (5.4.4) was adopted on 7 March 2012 is attached. The procedure has the following objectives:

- To provide relief to those ratepayers who are experiencing genuine financial difficulties in paying their rates and charges.
- To detail the eligibility criteria and assistance available to ratepayers suffering hardship in paying rates and charges.
- To provide staff with the criteria to determine "Applications by Ratepayers Suffering Hardship".

Kempsey Council encourages ratepayers to contact Council directly in relation to hardship and addresses each case on a case by case basis. A number of payment plans and options are offered to ratepayers who require them due to financial stress. The Local Government Act has very clear rules around what Councils are allowed to do in relation to the treatment of rating hardship.

Doe the council have a Hardship Policy? Yes X No ☐

If Yes, is it identified in the council's IP&R documents? Yes No X

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

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

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

Any impact of the SRV on individual rates will be addressed on a case by case basis.

6 Assessment criterion 4: Assumptions in Delivery Program and LTFP

The DLG Guidelines state this criterion as follows:

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

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

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

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

Long Term Financial Plan Assumptions

The assumptions that have been used in developing the long term financial plan have been taken from publications from the Australians Bureau of Statistics, Westpac Bank, Independent Pricing and Regulatory Tribunal and Councils Community Strategic Plan.

Administration workforce levels have been estimated to remain the same as current levels for the length of the LTFP. Should Council be successful in receiving the SRV then operational staffing levels would need to increase to meet the increased workload. These increases would be funded directly from the funds any SRV would generate.

Table 33 - Kempsey Shire Council's long term financial plan assumptions

Assumptions	Indicator	Comment
Local Government Cost Index	3.00%	As outlined by IPART
Labour costs	2.75%	Wages increases have been increased by 2.75% based on current levels of staffing. The 2.75% was calculated using the 2012 CPI for Sydney All Groups figure of 2.50% and allowing an extra 0.25% for grade increases. Allowance has been made for the gradual increase of Council's superannuation contribution from 9.00% in the current year to 12.00% by 2019/2020.
Materials and contracts	2.90%	Operational expenditures that have a mix of wage and material costs have been increased by 2.90% to cover a 2.75%. A 2.50% increase in materials and an ongoing allowance for the effect of a carbon tax of 0.15%. For operational expenditures without a wage component the December 2012 CPI for Sydney All Groups figure of 2.50% has been used to increase from 2013/2014. Electricity has been Increased by 10.00% per annum from 2013/2014 to 2016/2017 and 2.50% per annum thereafter to account for the effect of the carbon tax.
Ordinary Rates	2.30%-3.00%	A rate peg of 2.30% has been allowed for 2014/2015 and then 3.00% has been allowed for the following 9 years. An SRV of 7% above the rate peg has been allowed for from 2014/2015 through 2016/2017 and 1% in 2017/2018.
User charges and fees	2.50%	User charges and fees have been increased by the December 2012 CPI for Sydney All Groups figure of 2.50%.
Capital expenditure	2.90%	The LTFP provides primarily for the renewal of existing assets. These costs were indexed by 3.50% in 2013/2014 and 2.90% per annum thereafter in line with Councils estimate for a combination of wage and material cost increases. The expenditure has not been altered from the capital works program shown in Council's current Operational Plan.
Depreciation expense	2.90%	Depreciation has been indexed by 2.90%

		(in line with increases in operational expenses) from 2013/2014 to reflect the increasing cost of replacing infrastructure. Depreciation costs have risen significantly on previous forecasts due mainly to the revaluation of Roads assets in 2011/2012. The LTFP has been updated to reflect these increases.
Population growth	1.60% per annum	This increase is in accordance with ABS estimates over the past five years.
Investment return	3.00%	A conservative return on investments has been allowed for and will be used to fund operational expenditure.
Loan interest	N/A	The LTFP does not provide for any further General Fund loan borrowings.
Operational grants	2.50%-3.00%	Recurrent grant revenues have been indexed by 2.5% per annum except where they are tied to wage expenditures, in which case they have been increased by 3.5% in 2013/2014 and 2.75% thereafter to cover the expected wage increases.
Capital grants	2.50%	Capital grants are tied to asset upgrades only and have been indexed using the 2012 CPI for Sydney All Groups figure of 2.50%.

7 Assessment criterion 5: Productivity improvements and cost containment strategies

The DLG Guidelines state this criterion as follows:

> *An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.*

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

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

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

Council adopted an organisational restructure in September 2009 that resulted in an organisation focused on the goals set in the Community Strategic Plan. This allowed Council to provide resources to achieve results set against the main goals. This was not possible under the previous structure. A flatter management structure has allowed for an expansion of the range of top level resources available to provide for significantly improved community engagement and support activities.

Kempsey Shire Council has a significant operating deficit, which means that it cannot sustainably continue to provide the services it does. There is some concern as to whether the accounting treatment of roads will, in practice, be accurate. So at this stage the Council has adopted precautionary approach of moving towards funding the lower of the two calculated funding requirement amounts. By the end of this delivery plan period the finances of the Council would in the worst case have stabilised, but still with an annual loss being made. The new council will then have the benefit of sufficient time to have determined the cost of asset replacements and can determine the future approach.

Efficiency savings have already been implemented and further savings and the use of shared procurement practices will be identified where possible. The savings made so far have led to $6.01 million being freed up to go towards asset replenishment and service provision since 2010. Over the term of the current delivery program this will contribute towards efficiency savings amounting to $10.13 million for the provision of services.

This $6.01 million can be attributed to:

- Council adopted a policy of removing its use of debt to fund ongoing asset replenishment. Council was successful in obtaining a low interest loan for works to revitalise the old highway corridor, but other loans are being paid out. This will eventually lead to an additional $3.2 million being made available for reinvestment into council's assets each year.

- In 2013/2014 all discretionary spend budgets were frozen so that no increase in the budget allocation was provided. This was part of $450,000 in efficiency savings made to help balance the cash budget for the first year of the delivery program term.

- The print and copy use was monitored and reviewed during 2012/2013. This resulted in the consolidation of approximately eighty print and copy devices to forty and a reduction in print and copy expenditure of approximately $100,000 per annum.

- The Australian Election Company was appointed (under the partially outsourced option) to conduct the Local Government Election. This provided a saving to Council of approximately $46,000 when compared to using the services of the New South Wales Electoral Commission.

- An electricity tariff and data review of Council's electricity accounts by Energy Management Solutions identified savings of $107,000 per annum.

- Workers compensation costs have been reduced by approximately $390,000 per annum since 2010/2011 following a greater focus on work, health and safety, injury management and risk management.

- An increased deductible for public liability insurance from $12,500 to $50,000 and property insurance from $2,000 to $10,000 reduced premiums by $112,000 and $48,000 per annum respectively. Premium savings are being put into a Reserve in 2013/2014 to cover the cost of claims up to the amount of $50,000 and $10,000 respectively. From the 2014/2015 year half the premium savings will be transferred to the reserve until the amount of $300,000 is held in the Reserve for any future claims that may be made. The Reserve would need to be topped up in any given year claims are made to maintain the balance.

- A review of Bank Fees resulted in a saving of $20,000 per annum.

- Council participation in the following group tenders through Mid the North Coast Group of Council's Procurement Alliance has resulted in savings of $124,220 per annum.

  - Supply & Delivery of Tyres
  - Supply & Delivery of Oils & Bulk Fuels
  - Supply & Delivery of Hygienic Services
  - Supply & Delivery of Domestic Water Meters
  - Supply & Delivery of Bulk Emulsion
  - Supply & Delivery of Traffic Control Services

  Council engaged Procurement Australia to facilitate the Electricity supply for our 15 large powered sites including street lighting. This resulted in a saving of $54,000 per annum

- In 2014/2015 all discretionary spend budgets will again be frozen delivering a further $150,000 efficiency saving.

Council will also have to look at whether there are areas that service levels can be adjusted without a large negative impact. Over the period of the delivery program savings are expected to be made by reducing the level of service provided through the library. The Kempsey branch of the library will have reduced hours of operations, moving to closing at 5:30pm and 12noon Saturday morning. The Toy Library service will not be provided on Saturday mornings. Council will work with the Stuarts Point and Hat Head communities to ensure that services continue in those areas, working to have increased community involvement in providing the service.

In 2013/2014 Council reduced the frequency of mowing open spaces and cleaning toilets within the Kempsey to provide an ongoing saving of $380,000 per annum in operating costs.
During the next four years the Council will review its asset portfolio of recreational and sporting facilities to see if there is potential to provide a better service with

fewer, but higher quality facilities. The level of funding provided by sporting groups towards their facilities will also be reviewed to allow funds to be generated towards the replacement of facilities that are ageing.

Over the next two years Council will develop service standards that will be based on efficient service provision so that the maintenance of infrastructure and provision of services will be undertaken in a more logical, planned and transparent manner.

As part of the future financial plan the administration functions of the Council will be held within normal inflation increases so that the Council's administration costs shrink relative to the overall size of the organisation. This will require the current operations to be undertaken more efficiently and effectively. Council is already operating at a good administrative cost percentage compared to that detailed in the Allen Report (2006) to be the best practice range, with administrative costs to be restrained to 12.00% of the value of the funds under management. This drops from the existing 13.20%, which on the amount of annual funds managed will be equivalent to efficiency savings of a further $500,000.

Movement to a position where Council can replenish assets from ongoing revenue is another cost containment strategy. Currently the opportunity cost of using debt funding is around 3.00% to 4.00% over rate payer's equity. Reliance on debt (with the possible exception of subsidised arrangements) equates to adding 14% extra to the cost of providing the services. Under the previous operations of the Council there has been amassed a debt of $15.10 million (General Fund). The effective cost of funding this portion of the Council's asset base using debt instead of ratepayer equity is an opportunity cost of $2.10 million. Removing this funding cost will lead to the ability to actually provide more infrastructure and services with the same amount of funds. The General Fund debt level has since been reduced to $10.98 million as at 30 June 2013.

8 Other information

8.1 Previous Instruments of Approval

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

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

8.2 Reporting to your community

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

Council staff report on a monthly basis to Council on Key Performance Indicators and planned and unplanned activities. Planned activities as detailed in the attached Delivery Plan are reported on a monthly basis at Council meetings, which will include the roads and bridges infrastructure that is indicated as the primary area where the funds will be spent. This information is also available in Council' Service Centre and library network. Council's work schedules are listed weekly on the Council's website and updates are provided. Council will also advertise weekly scheduled works in the local newspaper.

Council issues Community Newsletters; information on current and planned projects will be published and promoted through Council's advertising processes. In the last twelve months Council issued 83 media releases and obtained coverage in 106 written articles, with numerous radio interviews and television news broadcasts.

Council's web and Facebook sites are updated daily and a Weekly Works Schedule provides ongoing updates on planned road works and maintenance activities and water service works.

Councils Annual Report will also include expenditure associated with the SRV.

8.3 Council resolution to apply to IPART

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

Council has resolved to apply to IPART for a Special Rate Variation.

Details of the resolutions are included in the Supporting Material.

Checklist of contents

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

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

9 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: Kempsey Shire Council

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

General Manager (name): David Rawlings

Signature and Date:

Responsible Accounting Officer (name): Tony Curtin

Signature and Date:

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