

## 10 REPORTS TO COUNCIL

### 10.1 Special Rate Variation

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**Officer** Stephen Mitchell, Director Corporate and Commercial

**File Number** F23/3642

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#### PURPOSE

In April 2023 Council resolved to conduct a detailed investigation into options for achieving financial sustainability including a review of asset management plans, proposed capital programs, possible service level reductions, assessing capacity to pay and conducting community engagement. The outcome of the investigation was to present a report to this meeting recommending whether an application for a Special Rate Variation would be required.

This report presents the results of that investigation, highlights how the Long Term Financial Plan has been revised and presents a path forward for financial sustainability that responds to the community's significant issues with affordability.

#### RECOMMENDATION

**That Council:**

1. notes the content of the Community Engagement Summary Reports;
2. notes the content of the Capacity to Pay Report;
3. commits to proceed with a permanent Special Rate Variation application under s508A of the *Local Government Act 1993* to the NSW Independent Pricing and Regulatory Tribunal (IPART) by 5 February 2024 to address Council's financial sustainability and maintain essential community infrastructure including Council's road network.
4. in recognition of community feedback and capacity to pay considerations, rejects the original Special Rate Variation options two and three and proceed with a revised option one of 42.7% cumulative including the rate peg over a three-year period commencing in 2024-25, to be permanently retained within the rate base;
5. notes that the proposed increase in 2024-25 be limited to 7.9% including the rate peg to minimise the initial impacts on ratepayers and provide time for ratepayers to prepare for proposed increases of 15% including the rate peg in both 2025-26 and 2026-27;
6. notes that a decision to implement any approved Special Rate Variation increase and the size of that increase is made annually at the June Council meeting immediately prior to the increase taking effect from 1 July;
7. places the updated Long Term Financial Plan 2023-2033, which includes the recommended Special Rate Variation as Scenario option one, on public exhibition between 22 November 2023 and 12 January 2024;
8. places the updated Strategic Asset Management Plan 2023-2033 on public exhibition between 22 November 2023 and 12 January 2024.
9. places the updated Hardship Relief to Ratepayers Procedure and Recovery of Unpaid Rates, Charges and Other Debts Procedure on public exhibition between 22 November 2023 and 12 January 2024 to ensure it is fit for purpose and supports local residents with fairness and integrity, particularly in the context of a Special Rate Variation.
10. convenes an extraordinary meeting of Council on 30 January 2024 for the purpose of:

- a. receiving submissions on the updated Long Term Financial Plan, Strategic Asset Management Plan, Hardship Relief to Ratepayers Procedure and Recovery of Unpaid Rates, Charges and Other Debts Procedure;
- b. adopting the revised Long Term Financial Plan, Strategic Asset Management Plan, Hardship Relief to Ratepayers Procedure and Recovery of Unpaid Rates, Charges and Other Debts Procedure to be published on Council's website and submitted to IPART as part of the Special Rate Variation application; and
- c. noting the community feedback received regarding the decision to apply for a Special Rate Variation, which will be submitted to IPART as part of the Special Rate Variation application.

**11. commits to:**

- a. undertaking further analysis and service reviews to identify additional cost savings and productivity improvements to improve Council's forecast financial position, potentially reducing the size of the future rate increases to be implemented;
- b. reviewing the rating structure to ensure it remains fair and equitable, both across and within the Residential, Farmland, Business Urban and Business Other rating categories;
- c. continuing to advocate to the Commonwealth and NSW governments for improved and increased funding of the local government sector and for improved outcomes regarding cost-of-living pressures; and
- d. developing and implementing a communications plan to ensure ratepayers understand the timing and impact of any approved future rate increases and the revised hardship relief processes available to minimise impacts on ratepayer's capacity to pay.

## **BACKGROUND**

Over the last five years Council's Long Term Financial Plan (LTFP) has indicated the need for a Special Rate Variation (SRV) to increase revenue and close the widening gap between Council's income and expenditure. The Financial Sustainability Strategy, adopted in 2019 and updated with revised initiatives and actions in 2022, and which has been reported to Council quarterly as part of the Corporate Performance Report, highlights the proactive approach taken to addressing productivity and implementing cost reductions and systems improvements in the intervening years.

Annual financial results have fluctuated over that time due to significant organisational and systems modernisation, injections of grant funding following natural disasters and increased expenditure to address heritage issues such as legislative functions not being adequately resourced.

Considering the community feedback received and national financial pressures, it is a difficult position to acknowledge that the identified need to increase rates has now become critical, as the cost to deliver services and maintain community assets has continued to increase above the income Council obtains each year.

Kempsey Shire Council is not unique in facing significant financial challenges, reflecting a fundamental flaw of local government financing in NSW. While the Independent Pricing and Regulatory Tribunal (IPART) released their Final Report<sup>1</sup> on the review of the rate peg methodology

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<sup>1</sup> [Final-Report-Review-of-the-rate-peg-methodology-August-2023.PDF \(nsw.gov.au\)](https://www.ipart.nsw.gov.au/~/media/1/2/3/4/5/Final-Report-Review-of-the-rate-peg-methodology-August-2023.PDF/nsw.gov.au)

that will apply from the rate peg for the 2024-25 financial year on 10 November 2023, it will not address the underlying financial issues currently facing Council. The new rate peg methodology will use forward-looking measures of councils' base costs and better reflect the diversity of councils across NSW and therefore, should better reflect future changes in council costs to maintain services than the current methodology. However, the impact of rate pegging is only one factor contributing to Council's financial position and tellingly, the IPART Final Report includes a recommendation that the NSW Government commissions an independent review of councils' financials to improve financial sustainability, accountability, and community trust.

Likewise, industry wide advocacy to correct state and federal government cost shifting and reinstate historical levels of untied grant funding such as the Financial Assistance Grants, has not resulted in improved funding to support the asset management burden faced by local government.

The detail presented in this report aligns with the criteria that IPART would assess a potential SRV application against, as noted below:

IPART Criteria	Description
<b>Need for a special variation</b>	Demonstrate need for, and purpose of, a different revenue path clearly in IP&R documents, particularly LTFP and Delivery Program
<b>Community Awareness and Engagement</b>	Evidence that the community is aware of the need for and extent of a rate rise
<b>Impact on ratepayers</b>	The impact on affected ratepayers must be reasonable and have regard to the community's capacity to pay
<b>Exhibition of IP&amp;R documents</b>	The relevant documents must be exhibited, approved, and adopted by the Council
<b>Productivity improvements and cost containment strategies</b>	Savings realised in the last five years and plans for future

## KEY CONSIDERATIONS

### Long Term Financial Plan and need for a Special Rate Variation

Each year for the last five years as part of the legislated annual Integrated Planning and Reporting (IP&R) document suite, Council has placed on public exhibition and adopted a LTFP that includes the strategies and actions required to achieve financial sustainability. This document has included possible rate rise scenarios to increase revenue and return Council to a balanced budget position.

The LTFP adopted in June 2023 forecast a ten-year deficit of \$103M and included three scenarios of potential rate rises to be implemented over three years commencing in July 2024.

Given the extensive community feedback received through the SRV investigation, the Reserve Bank of Australia's decision on 7 November 2023 to increase interest rates and analysis of the independently prepared Capacity to Pay report (attached to this report), it is recommended that the level of asset management and financial security represented by SRV Options two and three in the June 2023 LTFP are not viable for Council to consider.

One of the objectives of the financial sustainability investigation was to critically review the assumptions, inclusions, and service level calculations in the LTFP. The revised LTFP attached to this report and recommended for public exhibition ahead of adoption in January 2024, includes a revised forecast deficit of \$79M, a \$24M improvement to the LTFP adopted in June 2023.

Factors contributing to the revised position include the following:

Favourable changes in the revised LTFP	Nominal <sup>2</sup> \$	
	Annual amount	10-year total
Financial Assistance Grant increase (based on 2023-24 final figure received)	565,410	5,654,097
Street Lighting (realised savings from recent LED replacement project)	175,232	1,752,322
Reduced backlog repairs and maintenance based on new asset condition data	531,871	5,318,711
Commitment to finding future productivity savings	551,406	5,514,063
Savings on projected interest on loans due to lower borrowings required from these changes	583,744	5,837,439
<b>Total favourable changes to the operating deficit</b>	<b>2,407,663</b>	<b>24,076,631</b>
Reduced backlog of capital asset replacement based on new asset data. Positively impacts loans and loan interest as noted above.	287,870	2,878,703
<b>Total favourable changes</b>	<b>2,695,533</b>	<b>26,955,334</b>

As with all long-term financial plans they are a point in time estimate but the reduction in forecast deficit over the next ten years has enabled the proposed SRV scenarios to be reviewed and reduced to demonstrate an increased commitment from Council to reduce costs and better reflect community expectations.

The revised LTFP attached to this report reflects changes to the General Fund only, which is the subject of the proposed SRV. No changes have been made to either the Water or Sewer funds at this stage as the financial forecasts for both funds, and particularly the Sewer Fund, are currently in the process of being reviewed. This review will include the timing and funding sources of the large sewer capital expenditure program and as a result sewer access fees in future years. This review will be completed prior to the preparation of the 2024-2034 LTFP which will be reported to Council as part of the IP&R document suite in April 2024, prior to public exhibition. Given higher than CPI increases

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<sup>2</sup> Nominal dollars (also referred to as actual dollars) represent the actual amounts of money spent or earned in a given year.

in Water and Sewer access fees in recent years and community feedback regarding the impact of these, it is intended that future increases in water and sewer access fees will be in line with CPI increases only.

The SRV options presented in the revised LTFP are:

Base Case	SRV Option One	SRV Option Two
<p>Asset backlog is addressed at current service levels (assets are currently not replaced at the recommended replacement times).</p> <p>Reduce expenditure by \$500,000 in future savings from service reviews and business improvement initiatives.</p>	<p>Asset backlog addressed as per Base Case.</p> <p>Reduce expenditure by \$500,000 in future savings from service reviews and business improvement initiatives</p> <p>Achieves financial stability via a proposed SRV to keep providing current levels of service.</p>	<p>Asset backlog addressed as per Base Case.</p> <p>Assumes an additional future operating saving of \$500,000 per year, over and above the \$500,000 saving target included in the Base Case and SRV Option One.</p> <p>Achieves financial stability via a proposed SRV to provide existing asset service levels.</p>
\$79M forecast cumulative deficit over 10 years.	Moderate operating surplus of \$500,000 over the years 2025-26 – 2032-33.	

The changes to general (property) rates across the three options are listed below. Revised SRV options one and two include the rate peg assumed in the base case<sup>3</sup>.

Option	2024-25			2025-26			2026-27			Total		
	Rate peg	SRV	Total	Rate peg	SRV	Total	Rate peg	SRV	Total	Rate peg	SRV	Total
Base case	2.5%	0.0%	2.5%	2.5%	0.0%	2.5%	2.5%	0.0%	2.5%	7.7%	0.0%	7.7%
SRV Option 1	2.5%	5.4%	7.9%	2.5%	12.5%	15.0%	2.5%	12.5%	15.0%	7.7%	35.0%	42.7%
SRV Option 2	2.5%	5.4%	7.9%	2.5%	11.2%	13.7%	2.5%	11.2%	13.7%	7.7%	31.8%	39.5%

<sup>3</sup> Note the cumulative price change after three years is not simply three x annual change. This is due to the impacts of year-on-year compounding which means the cumulative increase from 2023-24 financial year is greater than simply the addition of three annual increases.

## Strategic Asset Management Plan

Council is responsible for acquiring, maintaining, and renewing approximately 30,000 assets collectively worth over \$1.3 billion. The Strategic Asset Management Plan (SAMP) 2022-32 was adopted in June 2022 as part of the Integrated Planning and Reporting suite.

As part of the Financial Sustainability Program, Council has invested in improving the asset maintenance systems and collecting better data so that we can more accurately identify and cost those assets that require repair and or replacement, and more accurately forecast achieving the NSW Government industry benchmark for asset maintenance. The result of this ongoing asset management analysis defines the “Asset Backlog”.

As part of the SRV investigation the SAMP has been reviewed and updated to reflect the asset values of 30 June 2023, updated level of service graphs for sealed roads, and updated service category modelling for major asset classes.

The revised SAMP is attached to this report and is recommended for public exhibition so that the most correct assessment and calculations can be included in an application to IPART.

## Impact on Ratepayers

If a successful application was made for the recommended Option One (as detailed within the updated LTFP attached) and the rate increase adopted in June 2024, the impact on average general (property) rates across the four rating categories is outlined in the table below.

	SRV Option 1 - (including rate peg)														
	2023-24		2024-25			2025-26			2026-27			SRV Total			
	Average bill	% Increase	Average bill	\$ Increase	% Increase	Average bill	\$ Increase	% Increase	Average bill	\$ Increase	% Increase	Average bill	\$ Increase	% Increase	
Business Urban	\$ 3,483	3.7%	\$ 3,759	\$ 275	7.9%	\$ 4,322	\$ 564	15.0%	\$ 4,971	\$ 648	15.0%	\$ 4,971	\$ 1,487	42.7%	
Business Other	\$ 2,514	3.7%	\$ 2,713	\$ 199	7.9%	\$ 3,120	\$ 407	15.0%	\$ 3,588	\$ 468	15.0%	\$ 3,588	\$ 1,074	42.7%	
Residential	\$ 1,274	3.7%	\$ 1,374	\$ 101	7.9%	\$ 1,581	\$ 206	15.0%	\$ 1,818	\$ 237	15.0%	\$ 1,818	\$ 544	42.7%	
Farmland	\$ 2,332	3.7%	\$ 2,516	\$ 184	7.9%	\$ 2,893	\$ 377	15.0%	\$ 3,327	\$ 434	15.0%	\$ 3,327	\$ 996	42.7%	

Council engaged Morrison Low to assess the community’s capacity to pay, based on the three SRV scenarios as represented in the June 2023 adopted LTFP.

This attached report provides an objective and independent assessment to assist with the decision on the level of the SRV.

Noting the diversity of property values and demographics across the Kempsey Shire, the report provides an analysis and evaluation of relative wealth and financial capacity, by considering the financial exposure and vulnerability of the community across five different geographical regions.

Based on a comparison of economic and socioeconomic data from Council, Australian Bureau of Statistics and .id (informed Decisions) the report considered:

- Regions of social disadvantage
- Vulnerable groups of individuals
- Patterns of household expenditure
- Mortgage and rental payments

The Capacity to Pay Report concluded that:

- There are significant levels of advantage within the Kempsey LGA, along with significant pockets of disadvantage.
- It is important for Council not to marginalise especially vulnerable individuals and households, particularly in the Kempsey geographic area.
- A high proportion of residents within the Kempsey geographic grouping are renters or in social housing, which can mean minimal impact of an SRV.
- An appropriate hardship policy is required to address the issues identified in the Kempsey geographic region, which only has 'some' capacity to pay.
- The hardship policy will be equally important to address pockets of disadvantage in "Coastal North" and "Rural West" and less so "Coastal South" and "Aldavilla – Airport" which are the two geographical areas considered as the highest levels of advantage, demonstrated by high levels of equivalised income and home ownership.
- There is very limited capacity to pay across the Shire for Options Two and Three and therefore Option One, a cumulative increase of 51% is the highest presented potential SRV level that should be considered<sup>4</sup>.

It should be noted that cost of living and mortgage costs assessed in the capacity to pay analysis use data from 2021 and 2022, which does not capture potential additional financial vulnerability in the community caused by cost-of-living increases over the last 12 months.

For this reason and noting the volume of community feedback that indicated the originally proposed SRV options, including Option One at 51%, would have a detrimental effect on household budgets, the recommended rate rise has been reduced to 42.7% cumulative over three years in line with the revisions to the LTFP outlined above.

### **Managing Disadvantage**

Council is aware that an SRV may cause undue hardship for ratepayers who have been impacted by natural disasters, COVID-19 and more recently, the impact of cost-of-living increases. Unfortunately, many of these same circumstances have contributed to the financial issues Council is seeking to address.

A detailed review of Council's Hardship Relief to Ratepayers Procedure has been undertaken and the updated document is recommended for public exhibition. The changes seek to more thoroughly reflect the support mechanisms Council has in place and ensure they are fit for purpose, supporting ratepayers with fairness and integrity, particularly in the context of a rate increase.

It should be noted that ratepayers would ordinarily only require access to the provisions of Council's Hardship Relief to Ratepayers Procedure should proactive debt recovery efforts, as outlined in the Recovery of Unpaid Rates, Charges and Other Debts Procedure have been undertaken. Additionally, hardship arrangements would generally be for a shorter period (up to 12 months) rather than long term arrangements.

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<sup>4</sup> Note: the options in the Capacity to Pay report are the original three options in the SRV investigation phase that had potential increases of 51%, 85% and 94% and not the current proposed SRV option one of 42.7%.

In addition, Council has also updated and is recommending for public exhibition the related Recovery of Unpaid Rates, Charges, and other Debts Procedure. This procedure outlines the support given and legislative steps Council take to work with ratepayers to manage debt and make payment possible.

As procedures it is not mandatory to exhibit or formally adopt these documents, but these steps are being taken to support transparency and reflect the level of concern regarding hardship that is reflected in the community engagement.

It is proposed that the updated procedures would be adopted in January 2024, prior to lodging an SRV application to IPART. This timing also allows for Council to plan a proactive communications program to increase ratepayer awareness of these support mechanisms.

#### Cost Reductions and Productivity Savings

Council's adopted Financial Sustainability Program identifies multiple actions aligned to three core themes:

1. Delivering best value to our community – accurately modelling asset management costs, understanding community expectations, maintaining an appropriate organisational structure and staffing levels and, ensuring efficient outcomes focussed procurement and contract management practices.
2. Excellence in Financial Management – meeting audit and risk legislative requirements, implementing a cost containment prioritisation and budget process, ensuring grants reflect agreed priorities and maximising investment returns.
3. Striving to deliver better practice – continuous improvement through staff led initiatives and innovation, increasing or creating own source revenue opportunities.

The work of achieving financial sustainability is an ongoing and ever-changing target for most NSW Councils.

Outcomes of this program have been reported to Council quarterly, and while significant improvements have been made, the reality is escalating costs such as materials and contractors have fast outstripped any cost reductions and efficiencies that can be achieved.

In the current economic climate when many households are closely monitoring all spending, it is to be expected that once Council has actively promoted the financial situation we are facing and the steps taken to address that as part of the SRV investigation engagement program, the community has expressed a clear expectation that Council should operate more efficiently and constantly seek to reduce expenses.

For these reasons, the LTFP has been adjusted to include that Council will identify \$500,000 in ongoing realised savings compared to the previous forecast expenditure. Those savings will potentially come from not filling current vacancies, therefore using natural attrition to reduce the Council workforce and salary expenditure. Savings will also be identified through reviewing service levels and the ongoing implementation of systems improvements particularly in procurement and information technology.

If Council resolves to proceed with an SRV application a detailed report on savings realised over the last five years and proposed additional savings will be prepared as part of the application.



It is important to note that in coming years should Council add additional assets, increase services or service levels, or not take opportunities to make service level reductions when identified, that these decisions have potential to impact current financial modelling. The integrated planning and reporting cycle, including annual exhibition and adoption of the operational plan, budget and LTFP ensure the onus for realising the cost reduction commitments will be transparent to the community and collectively shared by the organisation and Councillors.

### **Policy and Legislation**

This report addresses Operational Plan action item: *LE.OP27 Investigate need for a Special Rate Variation (SRV)*. This action has a performance measure that the SRV recommendation be reported to Council by 30 November 2023.

Council is bound by the principles of sound financial management in the *Local Government Act 1993*, primarily spending and managing infrastructure in a responsible and sustainable manner.

If Council resolves to proceed with an SRV application it will need to remain compliant with s508(2) *Local Government Act 1993*, and associated guidelines and regulations, particularly in relation to the implementation of the Integrated Planning and Reporting Framework.

The rate peg or the percentage specified in an approved special rate variation is the maximum by which a Council can increase its general rate income in a financial year. Where a Council does not apply the full percentage increase available to it, s511 *Local Government Act 1993* permits the Council to catch-up on the shortfall in general income over no more than ten years. IPART recommend that Council's should seek independent legal advice before utilising catch-up provisions, which would be prudent if Kempsey Shire Council was to reduce the rates recommended for years two and three of the proposed SRV Option One.

### **Strategic Alignment**

The *Local Government Act 1993* requires Council to sustainably manage its assets, resources, and finances.

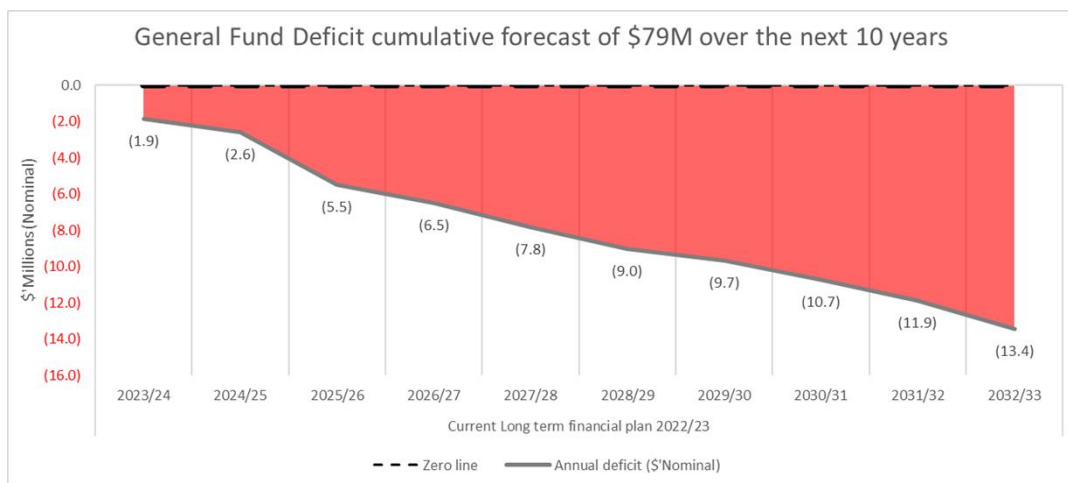
Council's Financial Sustainability Strategy, adopted in 2019 and updated with revised initiatives and actions in 2022, has provided strategic guidance for financial decision making.

Ten-year financial forecasts, as included in the LTFP are part of Council's Resourcing Strategy, a legislative requirement of the Integrated Planning and Reporting Framework (s403 *Local Government Act*) that applies to all Councils in NSW.

### **Impact on Financial Sustainability**

The *Long Term Financial Plan and need for a Special Rate Variation* section earlier in this report outlines why an SRV is required, the SRV options considered and the impacts on ratepayers of the proposed SRV options.

As noted previously, the LTFP has been reviewed and updated to reflect updated assumptions and cost forecasts for the General Fund. These changes resulted in a slight improvement in the ten-year Base Case (with no assumed SRV) financial forecast. However, as illustrated in the chart below, Council's financial position continues to deteriorate over time as expenditure grows more quickly than income.



The revised LTFP attached to this report contains significant further detail regarding the forecast General Fund operating deficits into the future and the two key drivers being:

- the operating items impacting ongoing financial sustainability; and
- the inclusion of capital and operating expenditure to address the asset backlog.

The proposed SRV options enable an increase in asset renewal and maintenance expenditure over and above current levels that will address the asset backlog at current service levels. The proposed SRV options also include future savings (expenditure reductions) from service reviews and business improvement initiatives, with \$500k of unidentified annual savings being included for option one and \$1M for option two.

Should Council not proceed with the SRV application at all, or should Council be unsuccessful in its application, then immediate action will be required to ensure ongoing solvency and Council's financial sustainability. Without an SRV a significant reduction in the levels of service and quality of assets would be required for Council to remain solvent. It is important to consider that this decision is not about funding a single project, or even a single year's budget, but rather it is about providing the additional income needed to improve Council's financial future for many years to come.

Whilst the impact of no SRV may not feel immediate, operationally numerous services would need to reduce or close completely, including potentially staff positions. Council would need to extend the life of assets beyond their estimated useful life increasing the risk associated with their use.

If Council was to proceed with a reduced SRV application below the recommended Option One of 42.7%, this will also require a further reduction in levels of service.

Should Council be successful in its application for an SRV, Council must then deliberate the implementation of the SRV during the adoption of its Operational Plan and budget for next financial year.

While Council must sustainably manage its finances, it is not obliged to implement any approved SRV or an SRV to the full amount approved. Council may implement additional cost savings initiatives during budget establishment as outlined above as an alternative and defer part of the SRV. Any deferral can be applied in a later financial year if that pathway is chosen, noting the advice from IPART as detailed in the Policy and Legislation section above.

## Stakeholder Engagement

Council has conducted a significant period of community engagement to understand the community perspective and expectations, initially in the period throughout 2020-2022 in preparation and adoption of the Community Strategic Plan and Delivery Program 2022-2026; and most recently in conjunction with the Financial Sustainability Investigation.

The focus of the 'Our Financial Future' engagement conducted through August – October 2023 was to educate and inform the community of the financial challenges Council face; the causes, the need to manage the asset backlog more proactively and the work that has been done to reduce costs and improve productivity. By being able to access this information in a range of formats the community were then able to provide informed feedback on three proposed SRV scenarios and clarify expectations regarding reducing costs or service levels.

Communication tools used to promote the engagement program included:

Method	Delivery and impact
<b>Media Releases</b>	Two standalone releases published on Council's website and distributed to all outlets
<b>Advertising</b>	Two Argus front- and back-page strip ads. Appeared in Argus for seven weeks. Staff e-signature advertising block for six weeks
<b>Editorial Media Liaison</b>	Four TV news interviews across NBN and 7News, three radio interviews including ABC Regional Radio and Tank FM, three Macleay Argus stories.
<b>Print advertorial</b>	Six Question of the Week columns, published in Macleay Argus and Council's website
<b>Social Media</b>	Facebook page banner, seven posts linked to Question of the Week content
<b>Community E-newsletters</b>	Media releases plus seven Question of the Week stories included in weekly e-news distribution to an average of 902 subscribers each time, resulting in an average of 67 clicks to the engagement portal per send.
<b>Direct Mail</b>	Information brochure in October rates notice to 14,639 ratepayers.  Direct emails to 70 community groups advising of engagement and offering to book community briefings incorporated into existing community group meetings.
<b>Display &amp; Handouts</b>	Four weeks display and handouts at Customer Service and Library.  1,500 additional Information brochures distributed across face-to-face engagement opportunities. Message on Council's digital information screens.

### Engagement methods and metrics

Key stakeholders include community, noting this encompasses all categories of ratepayers and residents in the shire more broadly; Council staff as they are potentially affected as both ratepayers and operators; Local Members of Parliament both state and federal; Councillors and Council advisors from Independent Pricing and Regulatory Tribunal.

While the most concentrated engagement efforts have been focussed on community stakeholders, other activities have included:

- Workshops with staff across all sections of Council who are 'people leaders' to review productivity, cost savings, and staff questions.
- Ongoing updates and information provided to staff through face-to-face presentations, videos and newsletters. This information enabled staff to raise issues or expectations regarding productivity, but also supported staff as ratepayers to help them to advise friends and family how to contribute.
- Briefings and follow-up information sharing with both local State and Federal MPs, particularly focussed on the issues of cost shifting.
- Monthly face-to face briefing sessions for Councillors and weekly bulletin updates on project status.

Community engagement methodology focussed on creating a detailed, consistent, and central source of factual information using Council's established online engagement portal.

The *Our Financial Future* portal on Council's Your Say Macleay engagement website included:

- Fact Sheets covering: What is Council doing to reduce costs? What caused the issues? What will be the impact on all rating categories? Why rising property values affect rates, What changes with higher rates? and Cost Shifting explained.
- Resource materials such as the adopted Long Term Financial Plan and 2022 Community Satisfaction Survey Report.
- Four explanatory videos highlighting content from the face-to-face community briefings including why Council are investigating an SRV, how rates are calculated, how rates are spent and why staff numbers have increased.
- Publication of slides used in community presentations around the Shire.
- Publication of 13 of the most common questions regarding the SRV investigation, along with answers. Over 30 questions were submitted in writing through the portal or by community groups during meetings and these were all answered and published.
- Clear and concise key dates to highlight important decision points.

The materials such as fact sheets, answers to common questions and presentation content on the 'Our Financial Future' site was then promoted, distributed, and shared using a combination of online and offline mechanisms.

Engagement tools and the resulting metrics are summarised below:

Method	Metrics
<b>Your Say Macleay Portal</b>	6,000 page visits – 4,366 Aware visitors who went to at least one page

Method	Metrics
	31.8% of visitors to the project took some action 319 visitors were able to download 792 documents 335 views of the FAQ page 37 visitors resulted in 62 video views
<b>Face to Face</b>	Markets x 6 locations across the Shire delivering approximately 180 interactions with residents regarding Our Financial Future.  Over 200 ratepayers across the Shire attended tailored community presentations, coordinated in partnership with existing community led organisations. Briefings were held with Macleay Business Chamber members, Hat Head Ratepayers, Kempsey Macleay Pensioners, Crescent Head Residents and Ratepayers, SPADCO, South West Rocks Country Club members and a combined group of 30 community leaders representing all major residents and ratepayer groups.
<b>Rate Increase Options Survey (see attachment)</b>	1,032 visitors to survey page online, 667 survey respondents including hard copy versions submitted through face-to-face events and directly to Customer Service.
<b>Formal Submissions (see attachment)</b>	150 submissions (91 online through Your Say Macleay and 59 submitted as emails and letters)
<b>Other</b>	One petition lodged Monday 30 October - 8,429 unverified signatures

### Engagement Results

As demonstrated in the metrics above a significant level of community engagement and awareness was generated through the SRV investigation.

The attached engagement reports contain all the survey responses, including comments fields and all the submissions received before 29 October 2023, through the Your Say Macleay portal and directly to Council. Inappropriate and offensive language has been redacted from the responses and submissions within the attached reports.

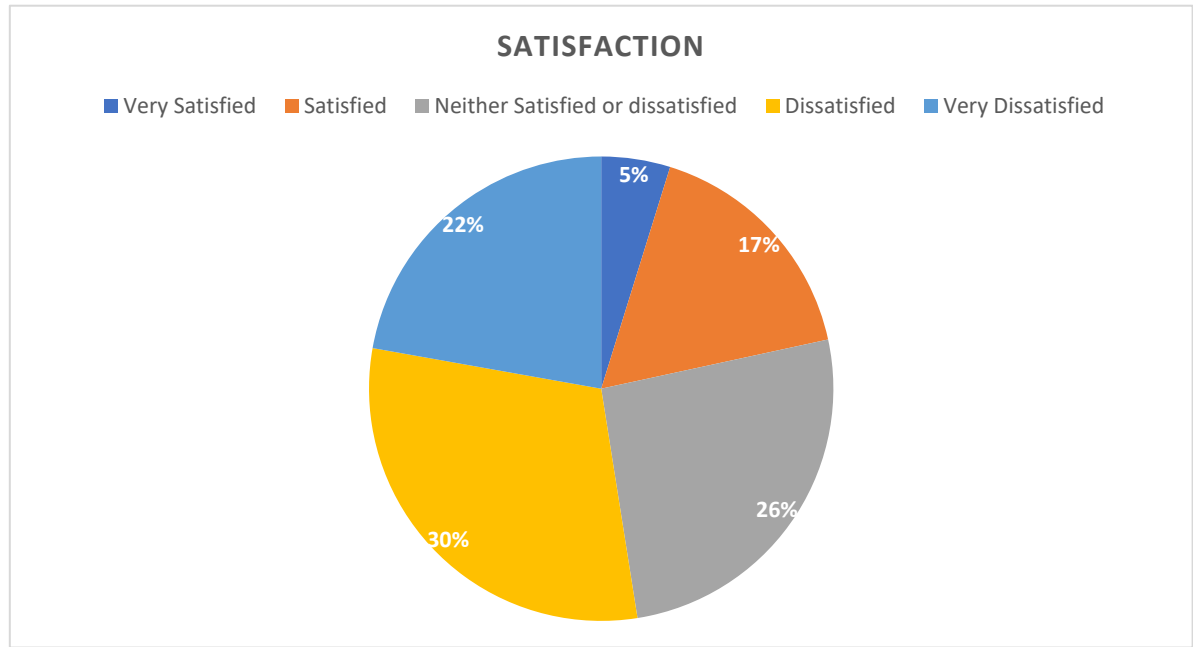
Common theme analysis across submissions and survey responses highlights most participants cite hardship, rising costs of living and capacity of the community to pay as reasons against making an application for an SRV.

### Rate Increase Options Survey Results

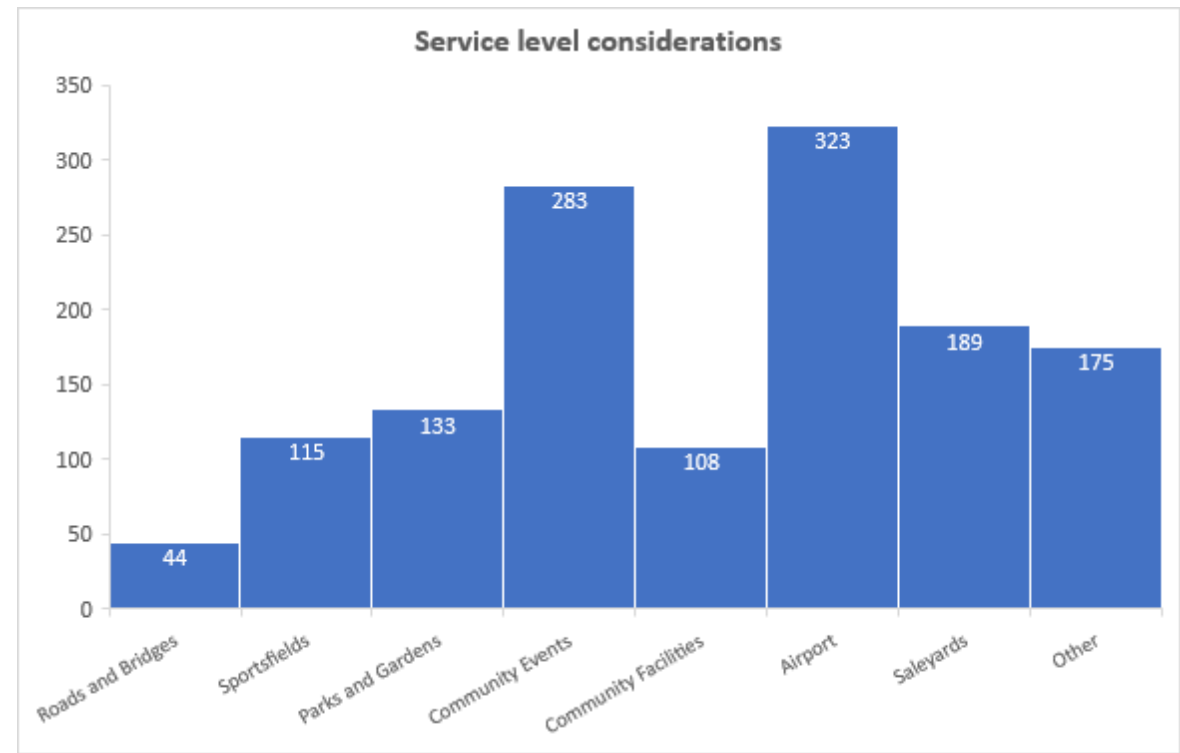
The following summary highlights the significant outcomes, most consistent community expectations, themes, and misconceptions.

*Question 2: How satisfied are you with the standard of maintenance and renewals for Council infrastructure (such as roads, bridges, buildings and footpaths)?*

*Commentary:* 52.5% Dissatisfied or Very Dissatisfied – this indicates that the community expect a higher standard of infrastructure maintenance and renewals, which is consistent with the data received in the 2022 Community Satisfaction Survey.



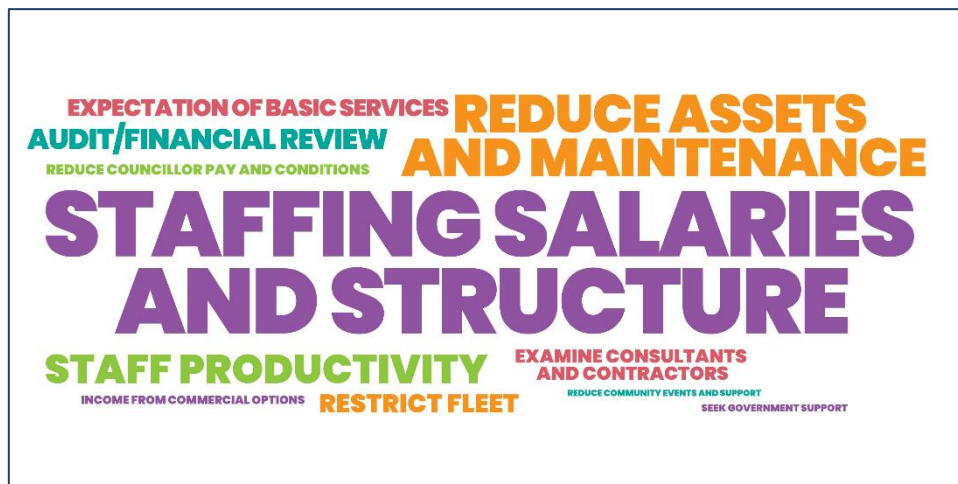
*Question 4:* If it's not important to maintain service levels, please indicate what Council services you recommend could be reduced or cut?



*Commentary:*

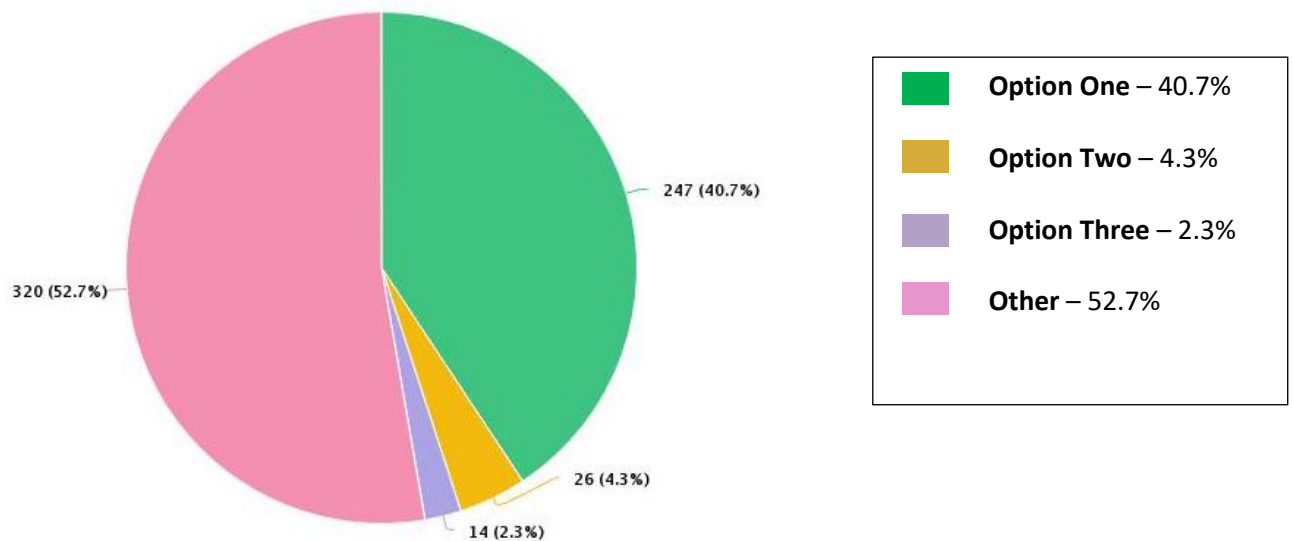
- This graph again shows the importance the community place on not reducing service levels for major assets such as roads, bridges and sports fields.
- The Airport has been highlighted as a service that creates a significant financial burden on ratepayer funds and is not practically used by most ratepayers. A further investigation as to the legality, steps required and possible savings generated by reducing Council's obligations to continue operating the facility, will be prioritised within the service review project slated for the current financial year. Recommendations will be brought back to a future Council meeting, which may impact the LTFP projections for 2025-26 and beyond.
- In 2022-23 Council were fortunate enough to receive significant grant funding, made available to all regional Councils, to deliver major community and cultural events to boost local economies post COVID-19. This funding enabled delivery of the Macleay Music Muster and Sky Stories indigenous art and storytelling in South West Rocks. Similarly state government "Streets as Shared Spaces" funding enabled Council to engage mural artists to transform the Savages and Elrington Laneways in Kempsey including major resurfacing and a laneway festival event. All three major events were fully grant funded, highly successful and well attended but may have distorted the community's perception of how much is spent on community events.
- The saleyards were identified as a service that could be reduced. However, the financial performance of the saleyards has improved since they were externally leased, and they are no longer a financial burden to Council. Additionally, the saleyards serve as a key asset driving economic activity within the Shire.

The word cloud below is a representation of the key themes that emerged from the comments added by respondents to Question Four and Question Seven in the survey relating to possible service reductions and cost containment strategies.



*Question 6:* If Council was to apply for a SRV which of the options is your preference?

### Preference of SRV Options



Note: of the 227 comments added to 'other' response most indicated a preference for No SRV but 11% of the comments suggested an acceptable SRV lower than the 51% of Option One.

The table below summarises the core community issues with Council's operation that have been identified through analysis of the survey comments and submissions, as per the attached documents. The response provided by Council seeks to correct misconceptions and continue to achieve the community education and transparency objective of the SRV investigation, not to dismiss the feedback.

Theme	Identified Community Issues	Council Response
<b>Kempsey Cinema</b>	Perception that Council has ongoing financial liability, operating costs or management responsibility.	A one-off financial contribution of \$2 million was made in 2018 to the construction of the Kempsey cinema and Council has no ongoing ownership, operating or maintenance responsibility for the facility.
<b>Staffing Levels and wages</b>	Expectation that expenses can be reduced by cutting staff numbers and / or reducing salaries.	Some KSC salaries are paid above the Local Government (NSW) State Award to ensure Council is competitive and able to attract staff to a regional location.  Staffing levels are impacted by a commitment to fill legislated roles, hire local trainees and apprentices, and employ temporary project Cmanagers over engaging expensive external consultants. Benchmarking against other Council's indicates that Council's staffing levels are reasonable and not excessive. Council's organisational structure must be formally



Theme	Identified Community Issues	Council Response
		reviewed and adopted within one year after Local Government elections.
<b>Slim Dusty Centre (SDC)</b>	Misconceptions about cost of ownership transfer and uses.	<p>There was no cost or payment for the ownership to transfer to Council. However, Council pays the Slim Dusty Foundation Limited (SDFL) a fee of \$50k per annum for the right to use the museum exhibits and artefacts, which generates income well in excess of this fee through ticket sales to enter the museum.</p> <p>Future cost estimate for the purchase of the freehold land has been included in the LTFP.</p> <p>SDC meets a need identified in Council's adopted Community Infrastructure Strategy and Arts and Culture Plan for additional arts, culture and event spaces.</p>
<b>Financial Management Process</b>	Requests for greater financial scrutiny.	Community engagement, reporting and transparency surrounding Council's financial management is legislated in the Integrated Planning and Reporting Framework. Monthly financial updates are reported to Councillors. Performance is reported to Council meetings quarterly. Financial Statements are independently audited annually and lodged with the Office of Local Government.
<b>Councillors Pay</b>	Requests to reduce Councillor entitlements.	The Councillor Expenses and Facilities Policy was adopted in December 2022. Payments to the Mayor and Councillors is in accordance with the Local Government Remuneration Tribunal 2023 determination.
<b>Council Fleet</b>	<p>Requests for the fleet to be reduced.</p> <p>Concerns on fleet vehicles being used to travel outside of shire and associated expenses.</p>	Council currently operates a light fleet of just over 100 vehicles. Of these, 60 are authorised for some level of private use with the majority of these being 'commuter use' of an operational, Council branded vehicle. Additionally, some employees as part of their contracts of employment have access to a Council vehicle under a 'leaseback' arrangement where even though the employee makes a financial contribution for private use, the vehicle must be available for other staff to use

Theme	Identified Community Issues	Council Response
		<p>during the day. Employees with 'commuter use' still make a financial contribution and the vehicle cannot be used for personal use outside of to and from work route.</p> <p>Limiting fleet access and housing the fleet in a central location increases security risk, makes Council a less attractive employer, increases insurance and cost of overtime and callout responses due to additional allowances that would be required for time and travel.</p>
<b>How Council prioritises?</b>	Perception that Council does not prioritise projects and works according to infrastructure and community needs.	<p>The Integrated Planning and Reporting Framework, with a focus on review and ongoing engagement in line with each new Council term, sets the parameters for Council's workload, services, and major projects.</p> <p>Most of what Council delivers every year are recurring services (such as waste management, provision of water and sewer services, and maintaining parks and gardens and roads). In addition, Council has annual programs replacing assets in relation to those services based on asset condition.</p> <p>The budget and Operational Plan are reviewed, updated, exhibited, and adopted between February and June every year.</p> <p>Annual budgets are built from a base of zero new projects and service increases. Council's Project Management Framework is used to evaluate compulsory demonstration of business case, evidence of community support and adequate funding or resource availability before inclusion in Council's program of work. Quarterly budget reviews assess delivery against targets and budget and are reported to Council.</p>

#### Additional Engagement Planned

Should Council resolve to make an application to IPART, the dedicated *Our Financial Future* page will be updated to reflect the Council resolution, inform the community of the changes made to the LTFP and highlight Council's commitment to reduce spending. The rates calculator will also be

reconfigured to enable residents to check the impact of the revised SRV percentage on their property.

Submissions regarding the SRV decision will be received up until 12 January 2024 and collated as part of the overall engagement report that will accompany the IPART application.

Council will use existing communications channels to share the relevant details of the process to make a submission directly to IPART, which is anticipated during March and April 2024.

## **CONCLUSION**

A large body of work has been undertaken to complete the Financial Sustainability investigation as resolved in April this year. That work has resulted in:

- Refinements to the Strategic Asset Management Plan and related costing for asset renewals and maintenance.
- Ongoing staff engagement, review, and calculations of opportunities to reduce costs, resulting in reducing the Ten-year deficit by \$24M from \$103M \$89M including a minimum commitment of \$500,000 in productivity savings in the LTFP.
- Detailed analysis of the LTFP calculations and assumptions to refine this complex 10-year forecast.
- A comprehensive community engagement program that effectively created awareness of the need for an SRV and educated residents on the impact of proposed options.
- Fair and transparent assessment of the level of disadvantage in the Kempsey Shire and the constraints that places on Council's ability to achieve a financially sustainable position through an SRV.

Ultimately, the investigation has resulted in a reduction of the deficit position forecast over the next ten years and a recommendation to apply for an SRV at a reduced level of 42.7% over three years (7.9% in year one and 15% in years two and three). This has an impact of less than \$2 a week for the average residential ratepayer in the first year of implementation.

In noting the significant community and individual resistance to increasing rates, Council's contribution to the local economy as a major employer and purchaser of local materials, products and services should not be discounted. Failing to secure financial stability and ongoing delivery of current service levels would have detrimental secondary impacts throughout the local economy.

It is recommended that Council resolves to submit an SRV application to IPART in accordance with the information and recommendations contained within this report and the associated attachments.

## **ATTACHMENTS**

1. Attachment 1: Revised Draft Long Term Financial Plan (LTFP) 2023-24 to 2032-33 [**10.1.1** - 46 pages]
2. Attachment 2: Revised Draft Strategic Asset Management Plan 2023 to 2032 [**10.1.2** - 121 pages]
3. Attachment 3: Capacity to Pay Report [**10.1.3** - 38 pages]
4. Attachment 4: Rates Increase Options Survey Results [**10.1.4** - 135 pages]
5. Attachment 5: Rates Increase Options Submissions [**10.1.5** - 153 pages]
6. Attachment 6: Draft Recovery of Unpaid Debts Procedure [**10.1.6** - 8 pages]
7. Attachment 7: Draft Hardship Relief to Ratepayers Procedure [**10.1.7** - 5 pages]