

Special Variation Application Form – Part B

Cessnock City Council

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1 Introduction

Cessnock City Council is applying for a one-year extension to its current special rate variation under the transitional arrangements for 2013-14.

Cessnock City Council intends to continue to allocate the funds from this special rate variation to the renewal of its road assets in line with Council's Asset Management System. These asset renewal works will focus on the resealing, heavy patching and rehabilitation of regional roads and collector roads within the local government area.

The special rate variation, which is the subject of this application, will allow Council to continue to fund priority road projects until a Section 508A special rate variation can be submitted following the review of the *Cessnock 2020* community strategic plan and the development of a new four-year Delivery Program to commence in 2013-14.

1.1 Cessnock Local Government Area

The local government area of Cessnock City covers 1,966 square kilometres and has a population of 52,493 (2011 Estimated Resident Population).

Cessnock City is located in the Hunter Valley, New South Wales, about 120 kilometres north of Sydney and 40 kilometres west of Newcastle. Cessnock City is bounded by Maitland City in the north; the Cities of Newcastle and Lake Macquarie in the east, Wyong Shire and the Cities of Gosford and Hawkesbury in the south; and the Singleton Council area in the west.

2 Focus on Integrated Planning and Reporting (IP&R)

This section focuses on the alignment of Cessnock City Council's integrated planning and reporting documents with the proposed special rate variation.

Cessnock City Council is utilising the transitional arrangements for 2013-14 to apply for a one-year extension to its current special rate variation.

- ▼ Has the council completed its I&PR documents and relevant annual reviews of plans?

Yes ☒ No ☐

2.1 Summary of relevant IP&R documentation

Cessnock City Council adopted its 2011-13 Delivery Program and Resourcing Strategy in June 2011. Page 114 of the Long Term Financial Plan (**Attachment 19**) recommended the continuation of the current special rate variation as included in Scenario 2 (described on page 113). Scenario 2 included the current special rate variation for all future years of the financial modelling in order to continue the improvement of Council's road network.

This application is made on the basis of the assumption (in the adopted Resourcing Strategy) that the 6.05% special rate variation would continue.

Cessnock City Council is making application under Section 508(2) of the Local Government Act for a special rate variation of 9.45% (inclusive of the general increase of 3.4%) for a one-year fixed term. This will continue the level of the existing special rate variation for the purpose of ensuring that Council has the necessary funds to continue with its road network programs.

Concurrent with the community engagement for this special rate variation application, Council has commenced confirming that the vision, outcomes and objectives in the *Cessnock 2020* Community Plan still reflect the community's priorities for the future. In addition, during the latter half of 2013 as Council moves into the next phase of its asset management improvement project, Council will undertake a comprehensive engagement program to determine the community's desired levels of service, willingness to pay and future rating path.

The special rate variation, which is the subject of this application, will allow Council to continue to fund priority road projects until a Section 508A special rate variation can be submitted following the review of the *Cessnock 2020* community strategic plan and the development of a new four-year Delivery Program to commence from the 2013-14 year. Further community consultation will then be undertaken.

3 Criterion 1: Need for the variation

This section presents Cessnock City Council's case for the extension of the special rate variation based on community feedback and Council's strategic, asset management and long term financial planning.

3.1 Variations for capital expenditure

Does the purpose of the proposed special variation require the council to undertake a capital expenditure review in accordance with Council Circular 10-34?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
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3.2 Strategic planning information

Need for the Special Rate Variation

Consultation during the development of the *Cessnock 2020* community strategic plan highlighted the condition of Cessnock's roads as a major issue for the future. As a result, the community strategic plan, *Cessnock 2020* (**Attachment 3**) – that was adopted in October 2010 - identified "*Improving the road network*" (objective 4.2 on page 19) as one of the objectives for the future of the local government area.

Actions to support the objective of *improving the road network* were incorporated in Cessnock City Council's 2011-13 Delivery Program adopted in June 2011 (**Attachment 22** - page 51) and its annual Capital Works Programs as part of the 2011-12 and 2012-13 Operational Plans.

Likely Benefits of the Special Rate Variation – Background

Due to the geographic spread of the local government area, Cessnock City Council has more kilometres of roads per capita than other Hunter Councils. Council is responsible for maintaining approximately 1,000km of road pavement. Of this, around 100km are regional roads that provide connectivity between larger villages and towns both within and outside the Local Government Area. The remaining 900km are local roads of which approximately 330km are unsealed gravel roads while the remaining 570km are generally sprayed bitumen seal with smaller lengths of asphalt or concrete pavement. Of the local road network, approximately 170km are classified as local collector roads that provide the primary connectivity within larger villages and towns.

As part of Council's Asset Management System, Council undertakes comprehensive condition assessments of its sealed road network and has developed an overall Pavement Condition Index (PCI) which is based on accepted industry best practice. The PCI assumes a ranking of 10 for a road without defects and deducts points depending on the level and types of distresses in the road pavement.

The PCI is a technical measure of the constructed road pavement that is available for traffic use. It does not account for roads that have a less than desirable width, have 'edge break' or limited table drainage, have un-sealed shoulders, have no kerb and gutter, have no piped storm water drainage or have no paved footpaths.

Examples of various pavement condition indices are included in **Attachment 4**.

As a road network deteriorates, routine maintenance needs increase (i.e. pothole patching, heavy patching, edge break repair and crack sealing). The cost of asset replacement (i.e. resurfacing and rehabilitation) plus routine maintenance is known as the 'whole of life' cost. If the required maintenance funds are not available, including the increases required as a result of a reduced average PCI or additional new (developer provided) roads, then the rate of deterioration of the network will increase and result in a further reduction of the average network PCI.

In accordance with the Integrated Planning and Reporting requirements and AASB116 "Fair Value" Property, Plant and Equipment accounting standards, a whole-of network assessment of Council's road network was last carried out in 2009-10. This data was used to support Council's previously approved two-year Special Rate Variation (for 2011-12 and 2012-13). Council updates its road asset condition data on a regular basis and the next whole-of-network condition assessment is due to be undertaken in 2013-14.

The data provided at the time of Council's previous application indicated that at 2009-10, the average condition of Council's sealed road network was assessed at 7.76, which ranks the overall road network as very good under the Index. Of the total road network, only 3.88% was rated as failed with a further 3.98% being rated as poor or very poor. However, further analysis indicated that the regional roads within the road network were in much worse condition: 16.85% of the regional roads were rated as failed while a further 7.99% were rated as poor or very poor. Although not specifically presented in that application, Council's local collector roads as a subset of all local roads were in a similar condition and rate of decline as the regional road network.

Considering that both regional and local collector roads are utilised most by the community, it is not unexpected that their condition provides a significant influence on the public opinion in relation to the condition of Council's overall road network.

In the absence of an updated whole-of-network road condition assessment (due to be undertaken in 2013-14). Council's database indicates that the change in asset management practice (with a focus on asset renewal) during the current two-year special rate variation has been effective, with the interim (as at 2012-13) average condition of Council's sealed road network being assessed at 8.06 up from 7.76. This indicates that the overall rate of deterioration has been reduced and the overall condition of the network has slightly improved in the short-term. A closer examination of the regional road sub-network presents an even clearer picture of the impact that the changes in asset management practice and the application of the additional special rate variation funds has had in terms of reduced deterioration and sub-network improvement (refer to Table 1 below).

There is a margin of uncertainty in the interim PCI as it is not the result of a whole-of-network assessment. The condition data used has only been updated for those roads which have been treated (i.e. those roads that have been renewed or replaced) and that the deterioration of those un-treated roads is based on the underlying computer model and not on observation. It is also a figure produced part-way through a financial year at a time when not all the programmed renewal projects have been completed.

Table 1 below benchmarks the 2009-10 road condition indices with the interim 2012-13 road condition indices:

Table 1 – Pavement Condition Indices 2009-10 and Interim 2012-13

PCI	Condition	% Total Sealed Road Network 2009-10	% Total Sealed Road Network 2012-13 (Interim)	% Regional Road Network 2009-10	% Regional Road Network 2012-13 (Interim)
8.5 to 10	Excellent	54.03%	53%	39.13%	39%
7 to 8.5	Very Good	24.63%	28%	23.67%	27%
5.5 to 7	Good	9.45%	9%	9.15%	8%
4 to 5.5	Fair	4.03%	4%	3.21%	6%
2.5 to 4	Poor	2.10%	2%	1.50%	7%
1 to 2.5	Very Poor	1.88%	2%	6.49%	3%
< 1.0	Failed	3.88%	2%	16.85%	10%

The information in Table 1 above demonstrates that the focus of the funds from the current two-year Special Rate Variation on the renewal of regional and local collector roads has delivered its intended outcome for the benefit of all road users.

Likely Benefits of the Special Rate Variation - Outputs

The extension of the existing special rate increase will be used to continue the previous two years of focussed improvement of the overall condition of the road network by the extension of the useful life of existing assets and a reduction in the rate of deterioration of the regional road and local collector road networks.

This will be achieved through a continued road resealing and rehabilitation program targeting regional and local collector roads in both rural and urban localities that have failed or have low Pavement Condition Indices. The apportionment of these additional funds will continue to be allocated in line with the existing two-year special rate variation presented in Table 2 below.

The development of the annual road renewal program is defined by Council's Asset Management process and is a comprehensive process undertaken during the period February to May each year as part of the development of the annual Operational Plan. It includes updating road asset condition data (for renewal projects completed in the current year), identification of likely new candidates (condition based treatment triggers) through Council's Pavement Management System, prioritisation of treatments (optimised based on available budgets), on-site inspections of selected segments for proposed treatments, review of maintenance 'hot spots' and consideration of customer requests.

As a result of Council's improved Asset Management process (with an emphasis on asset renewal), Council adopted a 'funding apportionment' approach (refer Table 2 below) for the second year (2012-13) of the current two-year special rate variation. This approach

provided sufficient definition to demonstrate and measure how and where the special rate funds would be spent in terms of treatment type (Reseal, Reseal and Heavy Patch, and Rehabilitation) and road classification (Regional and Local Collector) without fast tracking the final segment selection by the March submission date.

The approved apportionment for the prioritisation of special rate variation funds for 2011-12 is proposed to be utilised again in 2013-14 and is detailed in Table 2 below.

Table 2: Apportionment of Special Rate Variation Funds

	<i>Reseal</i>	<i>Reseal with Heavy Patch</i>	<i>Rehabilitation (Reconstruction)</i>
Total	20%	60%	20%
Regional Road	0%	40%	0%
Urban Local Collector	12%	12%	0%
Rural Local Collector	8%	8%	20%

This expenditure apportionment translates to the lengths of roads (in Table 3) being treated with the funds from the special rate variation.

Table 3: Length of Roads to be treated with Special Rate Variation Funds

	<i>Reseal</i>	<i>Heavy Patch and Reseal</i>	<i>Rehabilitation (Reconstruction)</i>
Total	Approx 5.5km	Approx 6km	Approx 0.25km
Regional Road	-	approx 4km	-
Urban Local Collector	approx 3km	approx 1km	-
Rural Local Collector	approx 2.5km	approx 1km	approx 0.25km

In summary, an additional 11.75km of roads will be treated with the proceeds of this special rate variation.

Likely Benefits of the Special Rate Variation - Outcomes

The special rate variation will enable Cessnock City Council to continue to undertake additional road renewal works to address the concerns of residents with the condition of the roads throughout the local government area.

In the most recent community survey undertaken by Cessnock City Council in July 2012, the satisfaction rating for “developing and maintaining the road network” was by far the

lowest rating at 1.62 out of 5. This contrasted with the importance factor for this service being rated the highest at 4.78 out of 5. These results indicate the need for Council to increase the existing level of service in maintaining the road network as it is the community's highest priority. However, in meeting this priority, Council does not want to detract from the satisfaction that the community expressed, in the survey, with the majority of Council's other services.

The priority for road network improvement was also supported by other questions in this research. Road maintenance was seen by the community as being the highest priority issue for their town or village (57%) as well as for the local government area as a whole (50%). In the June 2009 Community Survey, roads were identified by 35% of the community as the highest priority issue over the next 20 years. A full copy of the community survey results for 2009 and 2012 are at **Attachments 1 and 2**.

Cessnock City Council's road network is not only important to the local population but is also a significant asset to the economic sustainability of the region. Use of Council's road network has significantly increased over the last ten years with steady population growth (1.1% pa) and increases in tourist visitation to the local vineyards.

The Hunter region receives 5.4 million day visitors every year. The Hunter Valley is New South Wales' second most visited tourist destination after Sydney. The region is also Australia's oldest wine producing region and Australia's top wine tourism destination attracting around 2.5 million overnight visitors each year. Events and festivals, golf, adventure tourism, the wedding market, and conferences also draw off-peak visitation and contribute to the Cessnock local government area's visitor economy. A 2010-11 assessment of the impacts of tourism in the Hunter Valley Wine Country region found that direct tourism spending (including capital investment) accounted for an estimated \$285.71 million, with 1,862 jobs directly generated by tourism. The total impact from tourism and wine spending and investments was \$520.6 million.

The growth in visitation is paralleled by growth in wine production that results in further use of Council's road network for transportation of product. The Hunter Valley has become a processing hub for the wine industry and its supply chain within New South Wales, in particular contract winemaking, bottling, processing, laboratory and technical work, and champagne making for the remainder of the state. The Hunter Valley's wine industry employs over 7,000 people with over \$500 million spent annually within the local area and industry. In 2009, the Hunter Valley wine region produced 26,411 tonnes of wine grapes, equivalent to about 1.9 million cases.

In addition, roads in the Cessnock local government area are being increasingly used by "through traffic" as workers commute to jobs in the upper Hunter's mining industry.

The high proportion of non-local road users, agricultural vehicles and the transportation of grapes and finished wine products all directly impact on the Cessnock Local Government Area road network and contribute to the degradation of Council's regional road assets.

3.3 Financial planning information

Cessnock City Council adopted its 2011-13 Delivery Program and Resourcing Strategy in June 2011. The Long-Term Financial Plan (**Attachment 19**) included three budget scenarios (pages 111-114)

The adopted Long-Term Financial Plan recommended the continuation of the current special rate variation (as included in Scenario 2) to provide for a better long-term cash

position, increased funds for road infrastructure works and to meet Council's objectives of a balanced budget and financial sustainability.

Cessnock City Council is updating its Long Term Financial Plan during the current round of integrated planning and reporting and, as part of this process, has prepared revised financial forecasts reflecting the options associated with this special rate variation application (**Attachments 23 and 24**). Note that the updated forecasts do not contain identified unfunded contingent liabilities in excess of \$70m (**Attachment 25**).

Cessnock City Council recently applied for funding under the Local Infrastructure Renewal Scheme (LIRS) Round 1 in which funding was sought for three projects (\$1.5m for bridge replacement and two road reconstruction projects totalling \$3.5m). Following Treasury Corporation's financial assessment, Council was informally advised that its application was successful for only the \$1.5m bridge component of this program.

3.3.1 Prioritization of proposed spending

The extension of the existing special rate increase will be used to continue the previous two years of focussed improvement of the overall condition of the road network by the extension of the useful life of existing assets and a reduction in the rate of deterioration of the regional road and local collector road networks.

This will be achieved through a continued road resealing and rehabilitation program targeting regional and local collector roads in both rural and urban localities that have failed or have low Pavement Condition Indices. The apportionment of these additional funds will continue to be allocated in line with the existing two-year special rate variation presented in Table 2 below.

The development of the annual road renewal program is defined by Council's Asset Management process and is a comprehensive process undertaken during the period February to May each year as part of the development of the annual Operational Plan. It includes updating road asset condition data (for renewal projects completed in the current year), identification of likely new candidates (condition based treatment triggers) through Council's Pavement Management System, prioritisation of treatments (optimised based on available budgets), on-site inspections of selected segments for proposed treatments, review of maintenance 'hot spots' and consideration of customer requests.

As a result of Council's improved Asset Management process (with an emphasis on asset renewal), Council adopted a 'funding apportionment' approach (refer Table 2 below) for the second year (2012-13) of the current two-year special rate variation. This approach provided sufficient definition to demonstrate and measure how and where the special rate funds would be spent in terms of treatment type (Reseal, Reseal and Heavy Patch, and Rehabilitation) and road classification (Regional and Local Collector) without fast tracking the final segment selection by the March submission date.

The approved apportionment for the prioritisation of special rate variation funds for 2011-12 is proposed to be utilised again in 2013-14 and is detailed in Table 2 below.

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Rural Local Collector	approx 2.5km	approx 1km	approx 0.25km

In summary, an additional 11.75km of roads will be treated with the proceeds of this special rate variation.

If only part of this special rate variation is approved, then Cessnock City Council would need to decide whether to retain road funding at existing levels by redirecting funds from other areas; or to reduce the level of additional road asset renewal in line with the reduced special rate variation.

3.3.2 Alternative options

Cessnock City Council's operational budget is under stress due to, among other things, increasing prices for electricity and water; and the imposition of costs for emergency services and waste levies from the State Government.

These factors have resulted in Council having to improve its productivity just to continue to provide the current range and level of service provision that the community expects.

Cessnock City Council's response has, in part, included recent reviews of road management and maintenance practices that have identified a number of ways to

improve Council's performance in these areas. These practices are progressively being implemented with positive results.

Cessnock City Council's rate income has needed to be increasingly used for recurrent service provision, which has meant that there has been little funding available for new initiatives or service level expansions.

Funding for the specific road projects currently funded by the special rate variation is not available from other general revenue. Without the special rate variation, if Council determined to fund these road renewal works from general revenue, then it would need to reduce the range and/or quality of other services that it delivers. These services are currently limited in terms of the future envisaged by the community in the *Cessnock 2020 Community Plan*.

Council regularly applies for grants for road improvement projects. Federal Roads to Recovery, Pathways and Blackspot funding program grants and State Regional Bridge Replacement grants have been applied for and received in recent years. Council partially matched the state funding for timber bridge replacement via loans in 2010-11.

Cessnock City Council has also recently applied for funding under the Local Infrastructure Renewal Scheme and will consider making further applications in future rounds of this program.

The purpose of the special rate variation application is to fund additional rehabilitation and resealing of existing regional and local collector roads. These programs are maintenance related (capital renewal) and should not be funded through loans and have limited grant opportunities. In accordance with good financial practice, Council's loan programs (refer page 115 of the Long Term Financial Plan – **Attachment 19**) and the majority of State and Federal Government grant programs are only utilised for capital works that generate new assets.

Scenario 3 in Cessnock City Council's Long-Term Financial Plan (page 114 – **Attachment 19**) illustrates that the use of increased loan borrowings to fund additional asset renewal expenditure (across all asset classes) results in an increasing debt service ratio and a gradual decline in Council's cash flow balance.

3.3.3 Impact of special variation on key financial indicators

Tables 4 and 5 below compare the impact on Council's key financial indicators without (Scenario 2) and with (Scenario 1) the proposed one-year extension to the current special rate variation.

Table 4 Key performance indicators – Scenario 2 special variation is not approved

Indicator	Year ended 30/6/10 Actual	Year ended 30/6/11 Actual	Year ended 30/6/12 Actual	Year ended 30/6/13 Estimate	Year ended 30/6/14 Forecast
Operating Balance Ratio %	5.83	2.67	-13.77	-2.64	-3.97
Unrestricted Current Ratio %	1.91	1.91	1.69	1.61	1.26
Rates & Annual Charges Outstanding Ratio %	5.49	6.11	5.15	4.48	4.51
Debt Service Ratio %	3.62	3.61	2.98	2.56	3.84
Broad Liabilities Ratio %	149.11	153.39	162.1	199.1	190.7
Asset Renewals Ratio	212.33	90.12	91.24	168.3	135.1

Table 5 Key performance indicators – Scenario 1 special variation is approved

Indicator	Year ended 30/6/10 Actual	Year ended 30/6/11 Actual	Year ended 30/6/12 Actual	Year ended 30/6/13 Estimate	Year ended 30/6/14 Forecast
Operating Balance Ratio %	5.83	2.67	-13.77	-2.64	-1.19
Unrestricted Current Ratio %	1.91	1.91	1.69	1.61	1.26
Rates & Annual Charges Outstanding Ratio %	5.49	6.11	5.15	4.48	4.51
Debt Service Ratio %	3.62	3.61	2.98	2.56	3.74
Broad Liabilities Ratio %	149.11	153.39	162.1	199.1	186.0
Asset Renewal Ratio	212.33	90.12	91.24	168.3	146.7

Notes to Tables 4 and 5:

Operating balance ratio is the net operating result (excluding capital items) as a percentage of operating revenue (excluding capital items).

Unrestricted current ratio is the unrestricted current assets divided by unrestricted current liabilities. "Unrestricted" means there is no restriction on the asset or liability imposed by regulation or some other externally imposed constraint. Eg, restricted assets include developer contributions.

Rates and annual charges ratio is the rates and annual charges divided by operating expenses.

Debt service ratio is the net debt service cost divided by revenue from continuing operations.

Broad liabilities ratio is the total debt plus cost to clear infrastructure backlogs (Special Schedule 7) divided by operating revenue.

Asset renewals ratio is asset renewals expenditure divided by depreciation, amortisation and impairment expenses.

A schedule of the key financial indicators is included with the forecasts for the financial scenarios both with and without the proposed special rate variation - **Attachments 23 and 24.**

A summary of the impacts of the special variation on Council's key financial indicators follows:

Operating Balance Ratio

The Operating Balance Ratio is the net operating result (excluding capital items) as a percentage of operating revenue (excluding capital items). If the special rate variation is approved (Scenario 1), this ratio will show a favourable increase as rates income will increase by the special rate variation thereby increasing both the operating revenue and net operating result.

Unrestricted Current Ratio

There will be no change to this ratio between the two scenarios.

Rates and Annual Charges Outstanding Ratio

The Rates and Annual Charges Outstanding Ratio is the rates and annual charges outstanding as a percentage of rates collectable. If the special rate variation is approved, this ratio is not expected to significantly change as the overall impact on rates levied is relatively minor and it is estimated that only a very small proportion of the increase will be unpaid at the end of the financial year.

Debt Service Ratio

The Debt Service Ratio is the net debt service cost (interest and principal) as a percentage of revenue from continuing operations. If the special rate variation is approved, this ratio will show a favourable decrease as the revenue from continuing operations will increase (due to additional special rate variation income). This ratio will also be affected by any future loan borrowings and existing loans reaching maturity.

Broad Liabilities Ratio

The Broad Liabilities Ratio is the total debt plus cost to clear infrastructure backlogs (Special Schedule 7 of Annual Financial Statements) as a percentage of operating revenue. If the special rate variation is approved, this ratio will show a favourable decrease as the cost to clear infrastructure backlogs will decrease and operating revenue will increase (due to the additional special rate variation income).

Asset Renewals Ratio

The Asset Renewals Ratio is the asset renewals expenditure as a percentage of depreciation, amortisation and impairment expenses. If the special rate variation is approved, this ratio will show a favourable increase as an increase in asset renewals will occur.

4 Criterion 2: Community engagement

This section demonstrates that Cessnock City Council has consulted with its community on the proposed special variation and that there is support for the continuation of the current special rate variation.

Does the council seek to renew or replace an expiring special variation?

Yes.

Cessnock City Council has clearly explained to the community:

- ▼ that there is a special variation due to expire on 30 June 2013.
- ▼ That, if the special variation were not approved (i.e. only the rate peg were applied), there would be a year-on-year reduction in rates.
- ▼ that the expiring special variation is proposed to be extended for a further twelve months.

4.1 The consultation strategy

The community consultation on the special rate variation options comprised a number of elements in order to engage with residents from across the local government area.

In July 2012, Cessnock City Council engaged Micromex to undertake community research with a representative sample of 400 residents to, among other things, assess support for the continuation of the special rate variation to retain the current level of sealed road renewal. (Refer **Attachment 2**)

On 6 February 2013 Council resolved to undertake an intensive round of community consultation on the proposed special rate variation following consideration of a report on this issue. A copy of the Council report is included at **Attachment 5**.

Good practice in community engagement is to provide the community with a range of options for consideration. Two options for the special rate variation were put forward for consideration within the community consultation program. These were:

Option 1 – Discontinue the existing special rate and increase rates by the legislated rate cap – reducing rates by 2.65%, or \$21 per year for the average residential ratepayer, with additional expenditure on roads being discontinued or a reduction in service levels for a number of Council services.

Option 2 – Continue the existing special rate and increase rates by the legislated rate cap limit of 3.4%, or \$33 per year for the average residential ratepayer, with existing service levels being maintained and continuation of approximately \$1.5 million expenditure on roads.

All options canvassed during the community consultation process and the percentage variances expressed above were based upon the level of rates currently being paid by the average ratepayer which is inclusive of the expiring special variation of 6.05%.

The community consultation strategy for the special rate variation comprised a number of elements.

A half-page advertisement was placed in the Cessnock Advertiser advertisement on 13 February 2013 – see **Attachment 6**.

A media release was issued to all local media outlets resulting in the following media coverage:

- Maitland Mercury ("*Further \$1.5m needed for roads*" on page 4) – 6 February 2013
- Newcastle Herald ("*No to supermarket soapbox*" on page 19) – 8 February 2013
- Maitland Mercury ("*Community meetings to sell road repairs*" – page 4) – 12 February 2013
- ABC News ("*Cessnock roads still in need of special rate*" – online) – 12 February 2013
- Radio news coverage in various news bulletins on KO-FM, 2HD, 2NUR-FM and 1233 ABC Newcastle – 11 February, 12 February and 19 February 2013

In addition, a Cessnock City Council staff information session and four community information sessions about the special rate variation were held at venues across the local government area to attract as wide an audience as possible.

At these sessions, Council officers provided information about the special rate variation process, the current condition of Council's roads, the need for the proposed extension to the special rate variation, and the impact of the various special rate variation options. A copy of the presentation is at **Attachment 7**.

The information provided at the community presentations was also placed on Council's website. Documentation on the website comprised:

- Background on Special Rate Variations - A fact sheet about special rate variations explaining what has happened with previous variations and the justification for the current special rate variation application – **Attachment 8**
- Council Services and Community Perceptions - A fact sheet about the range of services provided by Council and results from the 2012 community research showing the level of community satisfaction with the roads in the local government area – **Attachment 9**
- Special Rate Variation Options - A fact sheet explaining the options for the special rate variation that are being considered by Council and the service impacts on the community of each option – **Attachment 10**

- A fact sheet about the current condition of Council's roads – **Attachment 11**
- Asset Maintenance, Renewal and Upgrade – A fact sheet describing the differences between road maintenance, road renewal and road upgrades and Council's approach to asset management. – **Attachment 12**
- A fact sheet providing examples of various Pavement Conditions – **Attachment 4**
- A rates calculator so that ratepayers could work out their indicative rate notice total (inclusive of all rates, charges and levies) for 2013-14 under each option – **Attachment 13**
- Roads and Rates Feedback – A Community Feedback survey to gauge ratepayer opinions about the continuation of the special rate – **Attachment 14**

The supplementary Community Feedback Survey was quite short and, while not statistically representative like the community research undertaken last year, it provided a further opportunity for members of the community to indicate their preferences about the special rate variation options. It was available in a number of forms and at various locations including:

- On-line on Council's website.
- By direction on Council's Facebook and Twitter accounts to Council's website.
- Hard copy distribution at the Council Administration Centre, Cessnock and Kurri Kurri Libraries, Cessnock, Kurri Kurri and Branxton Swimming Pools, Cessnock Performing Arts Centre and Wollombi General Store.
- In the Cessnock Advertiser on 13 February 2013 accompanying the advertising about the special rate variation options.
- Distribution at community information sessions.
- Distribution at Cessnock City Council staff information session.
- Direct distribution to members of the community in Vincent Street, Cessnock.
- Distribution at other community events, including Community Litter Grants Workshops, Home Power Saving Workshops, and the Noxious Weeds Information Stand at Cessnock Show.

Following the consultation period, community feedback was collated and reported to Council at its meeting on 6 March 2013. (Refer **Attachment 15**)

4.2 Outcomes from community consultations

In the most recent community survey (of a representative sample of 400 residents) undertaken by Cessnock City Council in July 2012, the satisfaction rating for “*developing*

and maintaining the road network” was by far the lowest rating at 1.62 out of 5. This contrasted with the importance factor for this service being rated the highest at 4.78 out of 5. These results indicate the need for Council to increase the existing level of service in maintaining the road network as it is the community’s highest priority. However, in meeting this priority, Council does not want to detract from the satisfaction that the community expressed in the survey with the majority of Council’s other services.

The priority for road network improvement was also supported by other questions in this research. Road maintenance was seen by the community as being the highest priority issue for their town or village (57%) as well as for the local government area as a whole (50%). In the June 2009 community survey, roads were identified by 35% of the community as the highest priority issue over the next 20 years. A full copy of the community survey results for 2009 and 2012 are at **Attachments 1 and 2**.

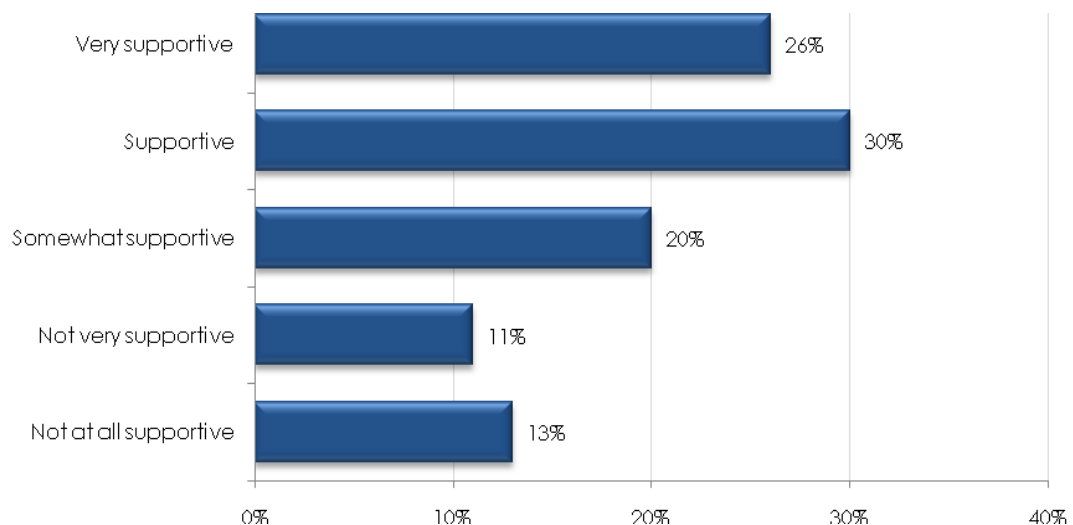
With regards to the proposed special rate variation, the community research undertaken in July 2012 found a moderate level of community support for the continuation of the special rate levy for sealed road renewal.

76% of residents indicated that they were somewhat supportive, supportive or very supportive of this levy remaining in place.

	18-29	30-44	45-59	60+	Male	Female	Overall
Level of support	3.56	3.35	3.64	3.31	3.52	3.38	3.45

Mean ratings: 1 = very dissatisfied, 5 = very satisfied

	Count	Column %
Very supportive	103	26%
Supportive	121	30%
Somewhat supportive	81	20%
Not very supportive	43	11%
Not at all supportive	52	13%
Total	400	100%



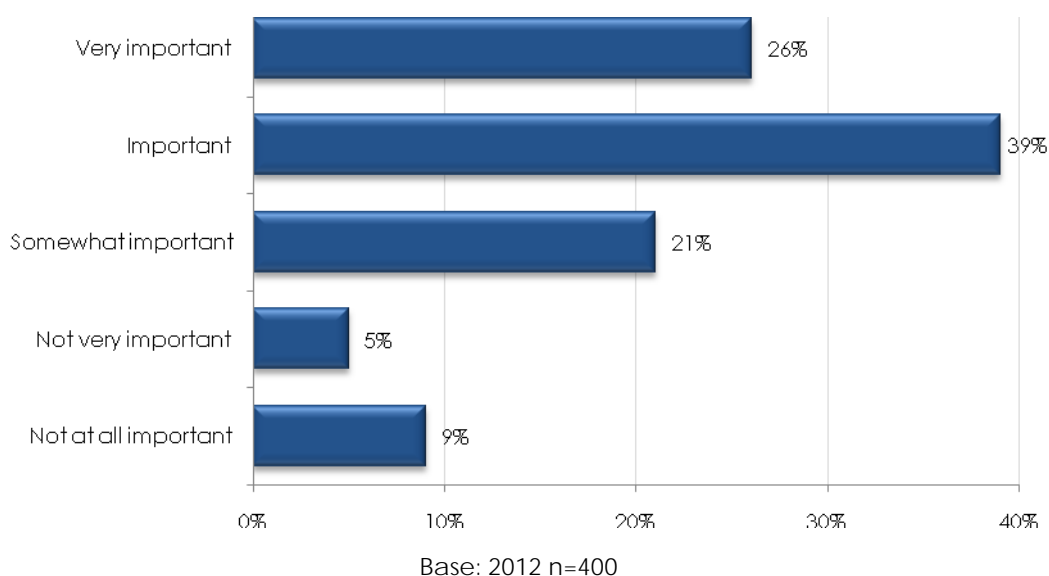
Residents who were 'supportive' to 'very supportive' of the continuation of the special rate variation felt it was necessary as 'the roads require further work' (35%).

86% of residents indicated that it is was somewhat important, important or very important that Cessnock City Council is allowed to continue the special rates levy for roads.

	18-29	30-44	45-59	60+	Male	Female	Overall
Importance mean ratings	3.64	3.64	3.82	3.67	3.77	3.61	3.69

Mean ratings: 1 = not at all important, 5 = very important

	Count	Column %
Very important	105	26%
Important	156	39%
Somewhat important	84	21%
Not very important	19	5%
Not at all important	35	9%
Total	400	100%



In February 2012 four community information sessions about the special rate variation were held. At these sessions, Council officers provided information about the special rate variation process, the current condition of Council's roads, the need for the proposed extension to the special rate variation, and the impact of the various special rate variation options.

The venues for the community information sessions were:

- Cessnock Performing Arts Centre - 19 February 2013
- Branxton RSL Sub-Branch Community Hall - 21 February 2013
- Kurri Kurri Community Centre - 21 February 2013
- Wollombi Community Hall – 26 February 2013

A total of twenty-eight community members attended the four community sessions. While the numbers were low, there were many questions asked and a high level of feedback provided by the participants.

The information provided at the community presentations was also placed on Council's website to help the community understand the reasons for the special rate variation proposal. (Refer **Attachment 7**)

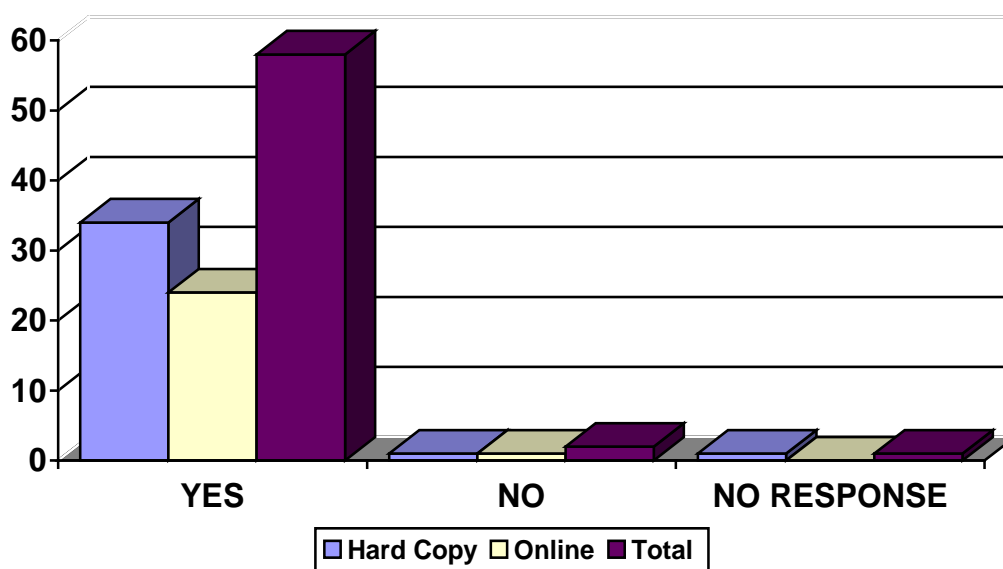
In addition, a staff workshop was held for employees of Cessnock City Council who were also residents in the local government area and fourteen people attended this session.

The supplementary Community Feedback Survey provided the opportunity for members of the community to indicate their preferences about the special rate variation options. Council received 61 survey responses. Of these responses: 36 were hard copy and 25 were completed online on Council's website.

The results of the supplementary community survey are summarised below:

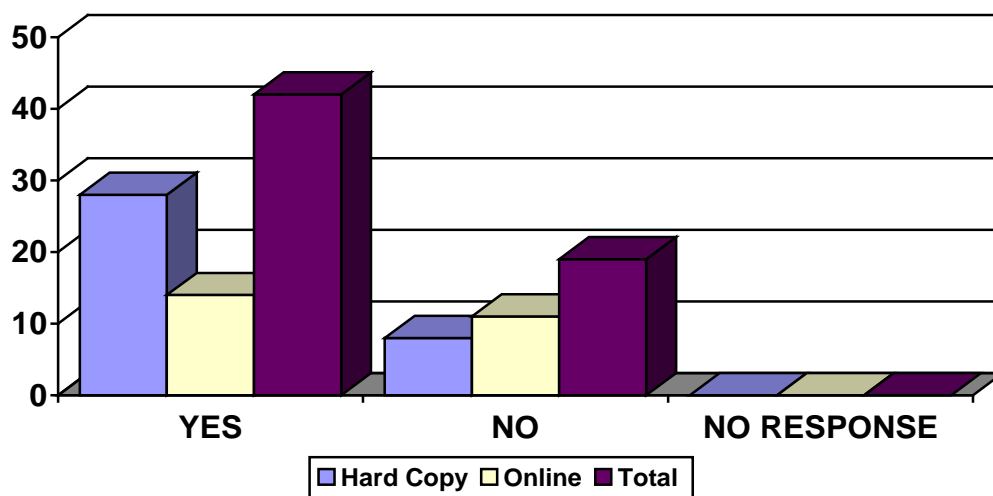
Do you believe the roads in the Cessnock Local Government Area need substantial improvement?

SURVEY	YES	NO	No Response
Hard Copy	34	1	1
Online	24	1	
Total	58	2	1



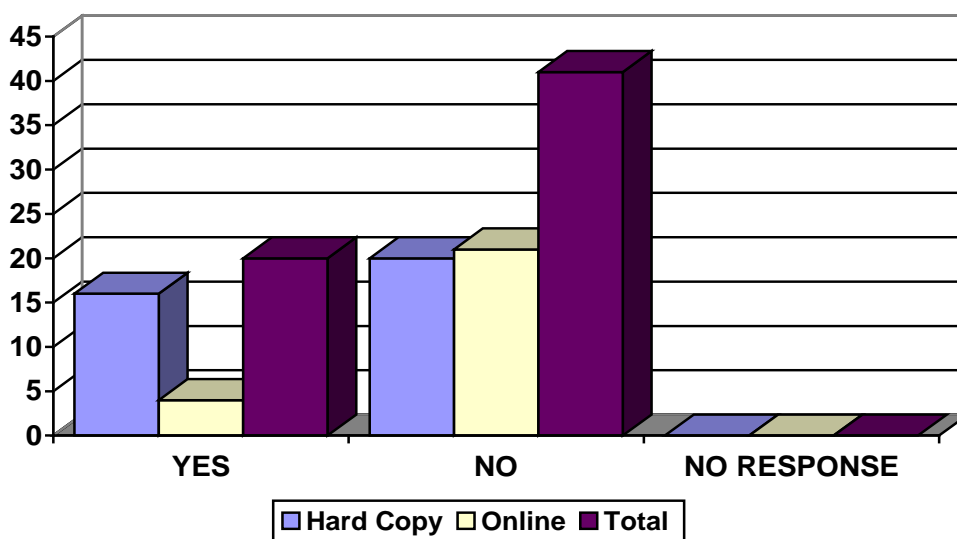
Do you support a continuation of the increased spending on roads in the Cessnock Local Government Area?

SURVEY	YES	NO	No Response
Hard Copy	28	8	
Online	14	11	
Total	42	19	



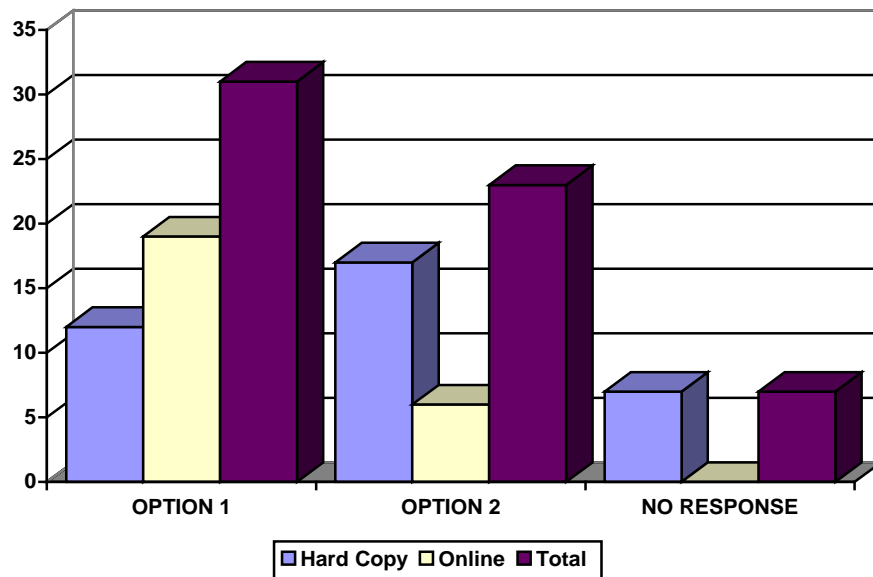
Are you prepared to pay additional rates to continue to improve the roads?

SURVEY	YES	NO	No Response
Hard Copy	16	20	
Online	4	21	
Total	20	41	



Which special rate variation option for 2013-14 would you support?

SURVEY	OPTION 1 Discontinue	OPTION 2 Continue	No Response
Hard Copy	12	17	7
Online	19	6	
Total	31	23	7



After excluding the nil responses to each question, the supplementary survey results indicate that 97% of the respondents believed the roads in the Cessnock area need substantial improvement while 69% supported a continuation of increased spending on these roads.

In response to the question on preparedness to pay increased rates 67% of respondents to the supplementary survey said “no” and 33% said “yes”.

When asked specifically about whether to continue with the existing special rate variation – 57% of respondents opted for Option 1 to discontinue the special rate variation and reduce rates accordingly, while 43% of respondents opted for Option 2 to retain the existing level of special rate variation.

The results of the community consultation were reported to the Council meeting on 6 March 2013 (**Attachment 15**).

It is noted that as the results of the supplementary community survey were not drawn from a random sample they are subject to self-selection bias. Therefore, more weight should be given to the results from the representative sample of 400 residents that were surveyed in mid-2012.

Both the community research and the community feedback survey reinforced the message (from previous surveys) that the maintenance and management of roads is a high priority for the residents of the local government area. To date, the existing special rate variation, and its application to additional road renewal works, along with a change in asset management practices, has been Council’s response to this community feedback.

Monies raised from the special rate variation over the next twelve months will be spent solely on additional asset renewal works (focusing on resealing and heavy patching) on regional roads and collector roads across the Council area.

During the 2013-14 financial year Council will consider the community's aspirations from the revised community strategic plan, *Cessnock 2023*, and the organisation will also have reached a level of maturity in its asset management across all asset classes that will enable it to go back to the community to determine their desired levels of service, willingness to pay and future rating path.

5 Criterion 3: Rating structure and the impact on ratepayers

This section provides an explanation of Cessnock City Council's proposed rating structure and the impact of the proposed special rate variation.

In addition, Cessnock City Council has completed the worksheets in Part A of the application to provide the information and calculations underpinning the proposed rating structure, the impact of the special variation and average rate increases.

5.1 Proposed rating structure

Cessnock City Council proposes to retain its existing rating structure should this special rate variation application be successful. Council's rating structure was significantly revised for the 2009-10 financial year, with Council subsequently reviewing the structure each year in conjunction with the development of the annual Operational Plan.

Cessnock City Council has had the current special rate variation in place for two years (along with a similar special rate variation for the previous five years) and, in applying to continue the variation, Council sees no benefit to the community in changing the rating structure to redistribute the rate increase.

Cessnock City Council considers that, as the variation is intended to be utilised for road maintenance and renewal across the whole local government area and will benefit all road users, the cost should be distributed proportionately to all ratepayers. The proposed special rate variation increase has been applied equally across all rating categories.

The proposed rating structure and expected rate yield for each category are shown in Tables 6 and 7 below for both options: without the special rate variation and with the special rate variation. The tables detail the number of properties in each category, the amount of base rate applicable to each category, the ad-valorem charge to be calculated from the individual land values of affected properties and the estimated total yield from each rating category. The total estimated yields are \$29,485,900 and \$31,212,000 from Option 1 (No Special Rate Variation) and Option 2 (with Special Rate Variation) respectively.

Table 6

Proposed Rates Payable - Year 2013-14					
Option 1 - No Special Rate Variation					
Rating Category	No of Properties	Land Value (\$)	Base Amount (\$)	Ad-Valorem	Estimated Yield (\$)
Residential	18,907	2,434,623,003	410.00	0.421229	18,007,200
Residential - Rural	1,641	518,459,910	410.00	0.391562	2,702,900
Farmland	865	507,074,900	410.00	0.308584	1,919,400
Farmland - Mixed Use	28	20,471,300	520.00	0.759795	170,100
Farmland - Low Intensity	801	182,968,492	410.00	0.351148	970,900
Farmland - Business Rural	36	21,203,000	520.00	0.759795	179,900
Business	1,496	250,323,908	520.00	1.544271	4,643,600
Mining	7	23,280,000	1,000.00	3.801117	891,900
Total	23,781	3,958,404,543			29,485,900

Table 7

Proposed Rates Payable - Year 2013-14					
Option 2 - With Special Rate Variation					
Rating Category	No of Properties	Land Value (\$)	Base Amount (\$)	Ad-Valorem	Estimated Yield (\$)
Residential	18,907	2,434,623,003	410.00	0.464508	19,060,900
Residential - Rural	1,641	518,459,910	410.00	0.422056	2,861,000
Farmland	865	507,074,900	410.00	0.330730	2,031,700
Farmland - Mixed Use	28	20,471,300	520.00	0.811339	180,100
Farmland - Low Intensity	801	182,968,492	410.00	0.382191	1,027,700
Farmland - Business Rural	36	21,203,000	520.00	0.811339	191,300
Business	1,496	250,323,908	520.00	1.652811	4,915,300
Mining	7	23,280,000	1,000.00	4.025344	944,100
Total	23,781	3,958,404,543			31,212,000

5.2 Impact on rates

General Revaluation

The local government area of Cessnock was subject to a general revaluation of all land in 2012, with the Valuer-General issuing new valuations for rating purposes with a base date of July 2012. These valuations are required to be used for rating purposes from July 2013. The overall impact was an increase of 3.05% on total land value and a 3.36% increase on rateable land value across the local government area. The impact on individual properties and localities was not uniform and the movement of an individual valuation in comparison to the overall average will determine an individual property's increase or decrease in rates for 2013-14. (Refer to Council report PM8/2013 20 February 2013 - **Attachment 21**)

In the comparative examples used by Cessnock City Council the comparative rates for 2012-13 reflect the rates calculated on the 2009 land values. By contrast, the IPART 2012-13 comparatives (in tables 3 and 4 of worksheet 5 of Part A of this application) for individual property values need to be viewed with this change in land value in mind. i.e. the Part A comparative figures for 2012-13 are not accurate as they are based on the land value amount from the general revaluation in 2012 (and not the 2009 land value that the actual rates for 2012-13 were calculated on).

The average figures used by Council (in Tables 8-12 below and in table1 of worksheet 5 of Part A of this application) more accurately reflect the actual rates levied in 2012-13.

Impact on Rates

Cessnock City Council intends to apply the proposed special rate variation evenly across the various rate categories, with no differential increase being applied to individual rate categories.

The impact on the various rate categories, and the number of properties affected within each major category (by rateable assessments) is shown in the tables below. Council has approximately 24,000 rateable assessments and the summaries below account for approximately 95% of these properties. In the analysis that follows Option 1 is the average rate payable without the special rate variation and Option 2 shows the average rate payable with the special rate variation.

Average Rate Payable – Residential Rating Category

In the residential rating category, Council has approximately 18,900 rateable properties which represents 80% of the total properties. Table 8 shows that of the 18,900 residential properties, the majority (11,800 properties) have a land value of between \$100,000 and \$150,000 and will have an average increase in rates under Option 2 of \$44 per annum. Of the remaining properties in this category, there are approximately 3,500 properties with a land value less than \$150,000 who will, on average, pay \$22 more per annum under Option 2. While the approximately 3,100 properties valued between \$150,000 and \$250,000 will have an average rate increase of \$31 per annum.

Table 8

Average Rate Payable Residential Rating Category (approx 18,900 properties)					
Land Value Range	No of Properties	Average Land Value	Current Year Rates	SRV Option 1	SRV Option 2
<\$100,000	3,460	\$72,395	\$724	\$715	\$746
\$100,000 - \$150,000	11,817	\$120,914	\$928	\$919	\$972
\$150,000 - \$250,000	3,080	\$177,658	\$1,204	\$1,158	\$1,235

Average Rate Payable – Rural Residential Rating Category

There are approximately 1,600 rural residential properties which represent 7% of all properties. Table 9 below shows that of these 1,600 rural residential properties, there are approximately 400 properties with a land value of between \$150,000 and \$250,000 and the average increase in rates under Option 2 is \$66 per annum. Additionally, there are another 1,100 properties with a land value in the range \$250,000 to \$500,000 that will, on an average, pay \$69 more per annum under Option 2 than what they are currently paying.

Table 9

Average Rate Payable Rural Residential Rating Category (approx 1,600 properties)					
Land Value Range	No of Properties	Average Land Value	Current Year Rates	SRV Option 1	SRV Option 2
\$150,000 - \$250,000	388	\$218,191	\$1,265	\$1,265	\$1,331
\$250,000 - \$500,000	1,147	\$332,623	\$1,745	\$1,712	\$1,814

Average Rate Payable – Business Rating Category

Council rates approximately 1,500 business properties which represent 6% of all properties. Table 10 shows that of these properties, there are approximately 790 properties with a land value of less than \$100,000 and the average increase in rates under Option 2 is \$1 per annum. There are another 270 properties with a land value between \$150,000 and \$250,000 who will, on an average, pay \$285 more per annum under Option 2 than what they are currently paying.

Table 10

Average Rate Payable Business Rating Category (approx 1,500 properties)					
Land Value Range	No of Properties	Average Land Value	Current Year Rates	SRV Option 1	SRV Option 2
<\$100,000	794	\$27,144	\$968	\$939	\$969
\$150,000 - \$250,000	269	\$190,839	\$3,389	\$3,467	\$3,674

Average Rate Payable – Farmland Rating Category

Council rates approximately 900 farmland properties which represent 4% of all properties. Table 11 shows that of the farmland properties, there are approximately 500 properties with a land value of between \$250,000 and \$500,000 and the average increase in rates under Option 2 is \$84 per annum. Additionally, there are approximately 300 properties with a land value of between \$500,000 and \$1,000,000 who will, on average, pay \$109 more per annum under Option 2.

Table 11

Average Rate Payable Farmland Rating Category (approx 900 properties)					
Land Value Range	No of Properties	Average Land Value	Current Year Rates	SRV Option 1	SRV Option 2
\$250,000 - \$500,000	455	\$394,767	\$1,631	\$1,628	\$1,716
\$500,000 - \$1,000,000	281	\$675,516	\$2,535	\$2,495	\$2,644

Average Rate Payable – Farmland Low Intensity Rating Category

In the farmland low intensity rating category, Council has approximately 800 rateable properties which represent 3% of the total properties. Table 12 shows that of the 800 farmland low intensity properties, there are approximately 400 properties with a land value in the range \$150,000 to \$250,000 and the average increase in rates for these ratepayers under option 2 is \$48 per annum. There are another approximately 300 properties with a land value between \$250,000 and \$500,000 who will, on an average, pay \$50 more per annum under option 2.

Table 12

Average Rate Payable Farmland Low Intensity Rating Category (approx 800 properties)					
Land Value Range	No of Properties	Average Land Value	Current Year Rates	SRV Option 1	SRV Option 2
\$150,000 - \$250,000	383	\$210,676	\$1,167	\$1,150	\$1,215
\$250,000 - \$500,000	312	\$294,997	\$1,488	\$1,446	\$1,537

5.2.1 Minimum Rates

Does the council have minimum rates?

Yes ☐ No ☒

5.3 Community's capacity to pay proposed rate increases

The special rate variation that is the subject of this application is essentially a continuation of the existing special rate variation, so the overall impact is the permissible rate increase of 3.4%.

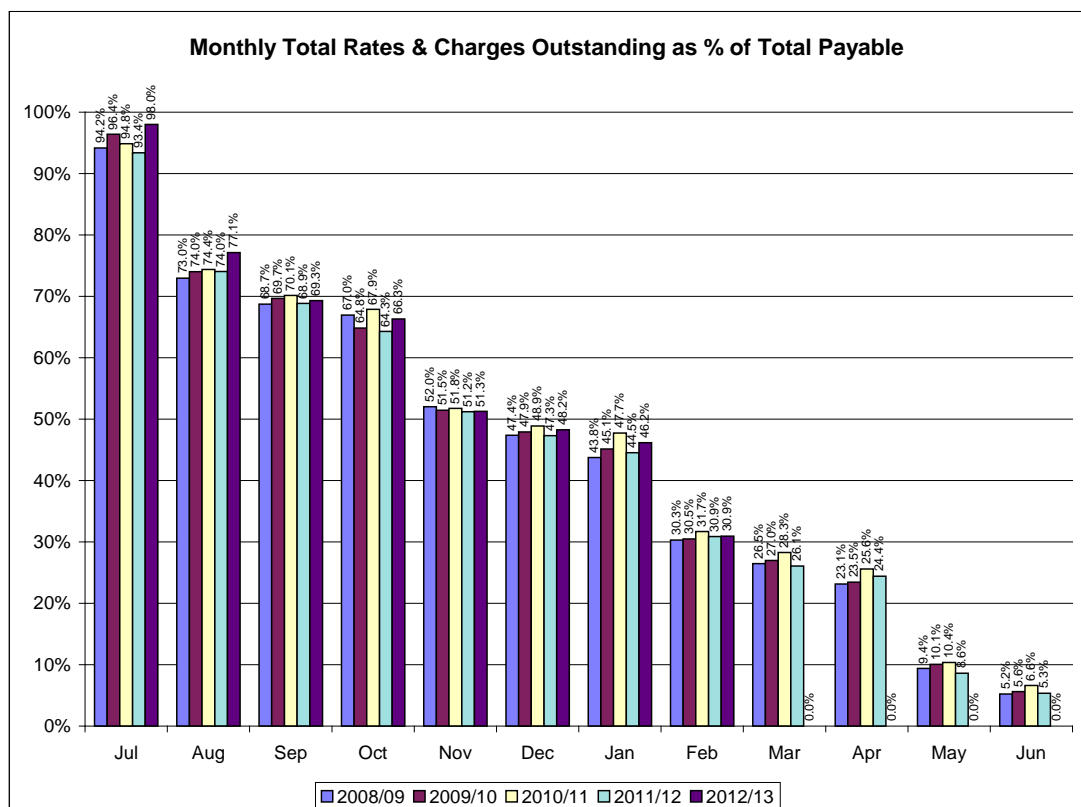
The impact of the special rate variation on ratepayers will, in the most part, be minimal as it is a continuation of the status quo. Council has approximately 24,000 rateable assessments and the majority of those are in the residential rate category (approximately 80% or 18,900 properties). The average residential ratepayer is expected to pay an additional \$33 (or 3.4%) per annum.

The Cessnock local government area has been the subject of a general revaluation (base date July 2012) from the Valuer-General with the new values effective from the 2013-14

rating year. Overall the increased land valuation is minimal at around 3% of total rateable land value, but the spread of valuation changes fluctuates from location to location and property to property, as is the norm during any general revaluation process. Because of this, the actual impacts on an individual ratepayer may vary to the average scenarios used in the modelling. That is, if an individual property valuation change is more or less than the average, then the corresponding movement in rates will vary accordingly. This was reported to Council at its meeting of 20 February 2013. (Refer – **Attachment 21**)

Council's level of outstanding rate debt at the end of the financial year has, for the past five years, remained relatively stable between 5-6% of the total rates collectable amount. Chart 1 shows the percentage of rates outstanding in relation to the total amount payable on a monthly basis for the past five years (including 2012-13). By Council electing to retain the status-quo, it is expected that the continuation of the special rate variation will not adversely impact this ratio. This trend highlights that the current level of rates is affordable for the community.

Chart 1



5.4 Addressing hardship

Does the council have a Hardship Policy in place?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If Yes, is the Policy identified in the council's IP&R documentation?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Refer Attachments 16, 17 and 18.		
Does the council propose to introduce any measures to limit the impact of the proposed special variation on vulnerable groups such as pensioners?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Cessnock City Council has a number of existing policies in place to reduce the impact of rates and charges on vulnerable groups. These policies have been in place for a number of years and are used appropriately. The individual policies are discussed below.

Council has a long standing voluntary pension rebate policy (*R5.1 Granting of Rebates on Pensioner Rates*) (**Attachment 16**) in addition to the mandatory government pensioner rebate. Under this policy, eligible pensioners receive a discount of approximately 2% of the ordinary rate. This rebate is applied in addition to the mandatory calculation which is capped at \$250. The additional rebate is automatically granted at the time the mandatory pensioner rebate is calculated. The average annual cost of providing this additional voluntary rebate to pensioners is \$120,000.

Council officers have delegated authority as per legislative provisions and Council's policy *R5.3 Waiver Interest on Rates* (**Attachment 17**) to waive interest charges for vulnerable persons who are suffering financial hardships (such as pensioners and ratepayers on payment arrangements). This policy and its provisions have been utilised on a number of occasions over the last 12–18 months whereby significant amounts of interest have been waived. Requests are assessed on a case-by-case basis depending upon the individual circumstances.

Cessnock City Council officers also have delegated authority to limit the impacts associated with hardships caused by general valuation increases. Where necessary these delegations are used to assist any adversely impacted ratepayers.

Funding is provided to community groups under Council policy *R5.2 Rate Subsidies to Community Organisations* (**Attachment 18**) whereby 50% of the general rate levied is rebated under Section 356 of the Local Government Act. Every year, the automatic rebate is granted to a number of community organisations. In 2012-13 Council granted this rebate to twenty community organisations at a cost of approximately \$22,700.

Council also granted a rebate under Section 356 of the Local Government Act to the Police Citizens Youth Club for an amount of \$15,923 to assist with the development of a youth centre in a disused commercial building.

To further assist Council's residential ratepayers, a waste voucher system has been in operation for a number of years. The system comprises the issue of four vouchers to all residential ratepayers receiving a domestic waste service to allow free entry to Council's landfill site for waste disposal. Council intends to continue to provide this service into the future.

6 Criterion 4: Delivery Program and Long Term Financial Plan assumptions

This section outlines the service delivery and budgeting assumptions underpinning Cessnock City Council's Delivery Program and Long Term Financial Plan.

6.1 Delivery Program assumptions

Community Priorities

Council's 2011-13 Delivery Program is structured around the five desired outcomes and sixteen objectives identified in the community strategic plan, *Cessnock 2020* (**Attachment 3**)

Actions to support these objectives (including Objective 4.2 *improving the road network*) were incorporated in Cessnock City Council's 2011-13 Delivery Program adopted in June 2011 (**Attachment 22**) and its annual Capital Works Programs as part of the 2011-12 and 2012-13 Operational Plans.

The focus on improving the road network was reinforced as a priority in the community research undertaken by Cessnock City Council in July 2012. The satisfaction rating for "developing and maintaining the road network" was by far the lowest rating at 1.62 out of 5. This contrasted with the importance factor for this service being rated the highest at 4.78 out of 5. These results indicate the need for Council to increase the existing level of service in maintaining the road network as it is the community's highest priority. However, in meeting this priority, Council does not want to detract from the satisfaction that the community expressed in the survey with the majority of Council's other services.

The priority for road network improvement was also supported by other questions in this research. Road maintenance was seen by the community as being the highest priority issue for their town or village (57%) as well as for the local government area as a whole (50%). (Refer **Attachment 2**).

Asset Management & Sustainability

Cessnock City Council's 2012-13 Capital Works Program (adopted with the 2012-13 Operational Plan) is underpinned by Council's Asset Management System (comprising an Asset Management Policy, Asset Management Strategy and Draft Asset Management Plans).

Council's Asset Management System has been implemented in accordance with the integrated planning and reporting framework and includes tools and processes that facilitate the selection and prioritisation of works in an objective, whole-of-life, and optimised manner that is repeatable and auditable.

Council is currently in the process of updating its Asset Management Policy and Asset Management Strategy as part of the current round of integrated planning and reporting. The revised documents will include detail on the asset management improvement project and also reflect recent improvements in asset management practice (particularly the focus on asset renewal instead of constructing new assets).

A key deliverable in the 2011-13 Delivery Program is the 'Asset Management Implementation Project – Round 2' (refer 4.2.1 on page 51 – **Attachment 22**) This project encompasses, among other things, establishing levels of service for all of Council's assets.

A key outcome of Cessnock City Council's Asset Management Implementation Project has been to re-focus all available capital works funding on the renewal of existing infrastructure on a priority needs basis. This approach is being reflected in all components of the Asset Management System in order to meet the community's expectations and improve financial sustainability.

The 2012-13 Capital Works Program (and future Capital Works Programs) prioritise the available capital work funds from all sources on the renewal of existing infrastructure. The creation of new infrastructure has been limited, in so far as is possible, to grant funded and developer contribution funded projects (including any Council obligations or apportionments) and only urgent or risk management related council funded upgrades of existing infrastructure have been included.

This focus on asset renewal (away from new asset construction) is also being reflected in the deployment and make-up of Council's outdoor workforce as part of the development of the 2013-17 Workforce Plan.

Addressing the Backlog

Special Schedule 7 in Cessnock City Council's 2011-12 Financial Reports illustrates Council's current road infrastructure backlog i.e. the "estimated cost to bring assets up to a satisfactory condition" as \$87.6m. This figure is provided through Council's Pavement Management System and represents the renewal backlog based on known asset condition and defined treatment intervention levels.

The focus on asset renewal along with the additional funds from the current two-year Special Rate Variation has had an impact on the overall network condition and this will, in turn, directly impact Council's backlog.

In addition to the backlog detailed in the Special Schedule 7, there is an additional backlog in terms of road upgrade in line with adopted 'desirable road attributes' relating to pavement width (lane widening and shoulder restoration) and sealing of gravel roads (initial seal). Widening of any road is currently only undertaken when the road requires rehabilitation or reconstruction as it is cost effective and opportune to do so at that point. The sealing of gravel roads currently only occurs if related to a development or is part of a risk management solution and is often funded through specific traffic safety grants. While these backlogs exist, they are, in the main, related to a desirable standard and are not the

focus of this special rate variation application or a priority for the allocation of Council's capital works funds.

This proposed one-year special rate variation application seeks to maintain the existing efforts to address this backlog, specifically with the provision of an additional \$1,725,000 for the renewal of priority regional and local collector road infrastructure.

In line with the proposed 2013-17 Delivery Program, Council intends to pursue a further special rate variation application as part of its comprehensive efforts to improve its long term financial sustainability

6.2 Long Term Financial Plan assumptions

Cessnock City Council's adopted Long Term Financial Plan (**Attachment 19**) has been prepared with a range of assumptions for the Consumer Price Index, salaries and wages growth, permissible rate increases and retains Council's current commitments to expenditure patterns. The baseline scenario in the adopted Long Term Financial Plan has been developed with no special rate variation being applied and a corresponding decrease in expenditure on roads infrastructure (pages 116-121).

The scenario with a special rate variation has been structured on the same assumptions for cost increases and with the one-year special rate variation being applied for the full 10 years of the plan (pages 122-127). It is Council's intention to re-apply for a further special rate variation at the completion of the existing one-year application, seeking a minimum of retaining the variation of 6.05%.

The updated forecasts for the financial scenarios both with and without the proposed special rate variation are included as **Attachments 23 and 24**. Note that the updated forecasts do not contain identified unfunded contingent liabilities in excess of \$70m (**Attachment 25**). The updated scenarios include the following assumptions which are, in the main, based on historical trends:

- Rate peg of 3%
- Rates assessment growth of 0.5%
- Other revenue growth of 0.75%
- Employee costs growth of 2.5%
- Other costs growth – various increases averaging around 2.5%

Scenario 1 of the updated forecasts (**Attachment 23** - Base Case: Retain SRV) includes asset renewal of expenditure of \$1,725,000 in 2013-14 funded from the proceeds of the proposed special rate variation.

7 Criterion 5: Productivity improvements and cost containment strategies

Cessnock City Council has, over the past several years, undertaken a significant productivity improvement program that has contributed to improving its financial sustainability. Many of the improvements were prompted by recommendations of the Division of Local Government through their Section 430 Review process in 2008.

On 17 December 2010, the Division provided a report on a follow up review of Council's response to its recommendations which concluded that Council had made significant improvements to many of its processes.

Table 13 provides a summary of the improvements undertaken to date and an indication as to whether the improvement resulted in a one-off or ongoing savings. The majority of the programs have contributed to ongoing productivity improvements and savings.

Table 13

Program Improvement	One-off or Ongoing Savings
Improved automated Business Paper process (InfoCouncil) for Council meetings.	Ongoing
Developed and implemented a delegations management system to prepare and maintain staff delegations.	Ongoing
Redesigned the briefings management process – resulting in a reduction in catering costs.	Ongoing
Funded a number of staff to undertake tertiary study with the aim of improving staff retention and outcomes for Council.	Ongoing
Implemented a financial management information system and devolved financial management to operational managers to improve efficiency and budget management and reporting.	Ongoing
Reviewed Council-wide customer service delivery and developed an Interim Customer Services Strategy with an action plan for improving service delivery and gaining efficiencies.	Ongoing
Undertook a review of the Planning function to identify opportunities for process and productivity improvements.	Ongoing

Program Improvement	One-off or Ongoing Savings
Undertook a review of Council's operations in the context of the Australian Business Excellence Framework to identify areas of success and opportunity.	One Off
Undertook a review of the business needs and implemented an Enterprise Content Management System to improve records management and service delivery. In addition, work flows were re-designed to improve Council processes.	Ongoing
Replaced printing infrastructure with a system that ensures a reduction in printing waste.	Ongoing
Implemented an online Development Application tracking system to reduce phone enquiries allowing staff to spend more time on assessing Development Applications.	Ongoing
Implemented a program of reviewing Development Application files once Occupation Certificates are issued to ensure all documentation is stored electronically. This has reduced storage costs of hard copies and improved accessibility of information for staff.	Ongoing
Restructured the Onsite Sewerage Management Inspection Program to improve service delivery.	Ongoing
Undertook an audit of unpaid fees under the Onsite Sewage Management Program. Additional staff and a vehicle have been funded from this additional revenue.	One Off
Established a Competitive Building Team resulting in improved processes and increased income that had previously been lost to private certifiers.	Ongoing
Introduced standard report templates for staff involved in development assessment in order to enable workload to be managed more effectively. This has reduced the average number of processing days for development applications.	Ongoing
Undertook a fire safety audit. This resulted in improved processes, the introduction of a simple weekly audit program, reduced enquiries, and the identification of and reduction in outstanding accounts.	Ongoing

Program Improvement	One-off or Ongoing Savings
Implemented a program targeted at reducing Council's rates and charges outstanding.	Ongoing
Appointed an Internal Auditor to establish the internal audit function for Council.	Ongoing
Adopted a reverse auction approach for competitive power supply resulting in savings of approximately \$50,000 during the period 2009-12. A further negotiation for 2013-15 will result in an estimated saving of \$60,000.	Ongoing

Council intends to continue its focus on productivity improvements through the period of this special rate variation. Identified areas for improvement that have been planned during the next twelve months are listed in Table 14.

Table 14

Proposed Productivity Improvement Initiatives	Estimated Cost (\$)	One-off or Ongoing Savings
A further review of Council's Procurement Policy and Procedures. The review will ensure that Council's procurement practices are in line with current legislative requirements and best practice. Cost savings will be achieved by increasing "value for money" purchases and by making the procurement process more efficient.	Within existing resources	Ongoing – Will provide assurance that robust governance processes are in place and Council is obtaining the best value for money in its purchasing.
Improved integration of the Enterprise Content Management System with other corporate systems (including InfoCouncil, Customer Request Management System and website).	\$20,000	Ongoing – Will save staff time in processing requests and responding to enquiries.

Proposed Productivity Improvement Initiatives	Estimated Cost (\$)	One-off or Ongoing Savings
Implementation of a Corporate Performance Management Information System to provide a single point of input for reporting on progress against corporate plans and strategies.	\$30,000	Ongoing – Will streamline the reporting process and provide a 'line of sight' between individual activities and corporate objectives.
Implementation of a Staff Performance Management System.	\$60,000	Ongoing – Will provide consistency in the provision of appraisals and feedback for staff.
Development and completion of the Annual Internal Audit Program.	Within existing resources	Ongoing – Will provide assurance that there are robust governance frameworks in place and the organisation's financial risks are being managed.
Introduction of a new kerbside recycling contract (a regional initiative in conjunction with Lake Macquarie City Council, Maitland City Council and Singleton Council) that will achieve economies of scale (it covers 130,000 services) and reduce current charges.	Costs to be recovered from DWM charges.	Ongoing – Will standardise the recycling service with neighbouring Councils and reduce costs.
Continued improvements to road construction and maintenance methods and practices.	Within existing resources	Ongoing – Will improve operational efficiency, and over time, extend the life of the road network.

Council is currently undertaking its second iteration of integrated planning – with the updated community strategic plan, *Cessnock 2023*, and the new 2013-17 Delivery Program to be adopted in June 2013. The proposed initiatives identified above have been included in Council's preliminary draft plans and budget.

In addition the following issues were raised in comments at the community information sessions and handwritten on surveys:

- the road network needs substantial improvement
- existing Council road maintenance/construction practices/materials are considered ineffective
- consider the use of contractors for future road works

Issues relating to the management of the road network are currently being addressed through the recent audits of Council's road maintenance practices and the updating of asset management plans for roads and bridges. The updated Asset Management Plans will inform Council's long term financial planning to assist in determining a sustainable financing strategy for Council for the future.

8 Other information

8.1 Previous Instruments of Approval for expiring special variations

Cessnock City Council currently has in place a special rate variation which expires on 30 June 2013.

Refer **Attachment 20** – Copy of Instrument of Approval for the existing special rate variation.

Reporting

The total amount to be raised through the special rate variation will be clearly identified in Cessnock City Council's annual Operational Plan and Budget for the 2013-14 year, as has been the case each year for the current special rate variation.

The Special Rate Variation sub-program is solely focused on the renewal (road resealing and rehabilitation) of the existing regional and local collector road network apportioned as outlined in Table 2 above and will not be utilised for road widening, shoulder restoration or sealing of gravel roads within the road network.

The selection of specific segment level works in accordance with the approved apportionment will be developed and consulted / reported to the community as part of the preparation and ongoing quarterly reviews of the 2013-14 Operational Plan (specifically the Capital Works Program) and Budget.

Council will update the overall pavement condition of the road network annually and will undertake a whole-of-network assessment every four years. This will be undertaken using the Pavement Condition Index which forms part of Council's Asset Management System for roads.

Cessnock City Council prepares quarterly reports on the progress in implementing the Delivery Program (including the annual Capital Works Program) and also prepares an Annual Report that includes details of the work carried out with the proceeds of the Special Rate Variation. Both of these reports are included on Council's website.

8.2 Council resolution

Council resolved at its meeting on 6 February 2013 to consult with the community about whether to continue with the existing special rate variation for a further twelve months.

Council resolved at its meeting on 6 March 2013 to apply for a special variation of 6.05% for a one-year period under Section 508(2) of the Local Government Act 1993. (Refer **Attachment 15**)

9 Checklist of application contents

Item	Included in Part B of Application	Also included as Attachment to Part B
Community Engagement Strategy, Community Strategic Plan, Delivery Program & Draft Operational Plan	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Long Term Financial Plan	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Asset Management Plan	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Contributions Plan documents (if applicable)	<input type="checkbox"/>	<input type="checkbox"/>
Community feedback (including surveys and results if applicable)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Hardship Policy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Productivity/cost containment examples	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Past Instruments of Approval (if applicable)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Reporting mechanisms	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Resolution to apply for the special variation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

10 Certification by the General Manager and the Responsible Accounting Officer

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

General Manager - Lea Rosser

Signature Date: 11 March 2013

Responsible Accounting Officer - Michael Brady

Signature Date: 11 March 2013