

Special Variation Application Form – Part B

Upper Hunter Shire Council

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1 Introduction

This form must be completed by councils when applying for a special variation to general income under either section 508A or section 508(2) of the *Local Government Act 1993*.

Councils should refer to the Division of Local Government (DLG), Department of Premier and Cabinet *Guidelines for the preparation of an application for a special variation to general income* (the Guidelines) in completing this application form. The Guidelines are available on the Division's website at www.dlg.nsw.gov.au.

In November, IPART will also publish Fact Sheets on our role in local government rate setting and special variations, and community engagement for special variation applications. The Fact Sheets will be available on our website at www.ipart.nsw.gov.au.

This part of the application (Part B) must be completed in conjunction with the relevant Part A form– either:

- ▼ *Section 508(2) Special Variation Application Form 2013/14 – Part A* for single year applications under section 508(2) or
- ▼ *Section 508A Special Variation Application Form 2013/14 – Part A* for multi-year applications under section 508A.

This part of the application consists of:

- ▼ Section 2 - Focus on Integrated Planning and Reporting
- ▼ Section 3 – Criterion 1: Need for the variation
- ▼ Section 4 – Criterion 2: Community engagement
- ▼ Section 5 – Criterion 3: Rating structure and impact on ratepayers
- ▼ Section 6 – Criterion 4: Delivery Program and Long Term Financial Plan assumptions
- ▼ Section 7 – Criterion 5: Productivity improvements and cost containment strategies
- ▼ Section 8 - Other information (past Instruments of Approval (if applicable), reporting arrangements and the council's resolutions)
- ▼ Section 9 – Checklist of application contents
- ▼ Section 10 - Certification by the General Manager and the Responsible Accounting Officer.

1.1 Information requirements

The spaces provided in each section of this application form may be extended as required to fit information. Each section must be completed before we can assess the application.

Please note that the amount of information to be provided under each criterion is a matter of judgment for the council.

In general, the level of information to be provided should be proportional to the size or complexity of the council's request. Therefore, for relatively small requested increases in general income, less information is necessary than for larger increases. However, you still need to provide enough information and evidence to enable the Tribunal to assess each criterion.

The council may also submit supporting documents, including confidential documents, as part of the application. Supporting information should be relevant extracts of existing publications, if any, rather than the full publication.

If necessary, we may seek further information from you.

1.2 Submitting your application

Both Part A and Part B of the application should be completed and submitted online via the Council Portal on IPART's website at www.ipart.nsw.gov.au. A signed copy of the certification should be attached to the Part B form. We suggest that you access the User Guide for the Portal, also available on our website, to assist you in the online submission process.

Please note that file size limits apply to each part of the application in the online submission process. The limit for Part B forms is 10MB and the limit for all supporting documents together is 120MB (70MB for public documents and 50MB for confidential documents). This should generally be sufficient for the majority of council applications.

Please also submit your application to us in hard copy with a table of contents and appropriate cross referencing of attached plans and reports to:

Local Government Team
The Independent Pricing and Regulatory Tribunal
Level 17, 1 Market Street, Sydney NSW 2000 or
PO Box Q290, QVB Post Office NSW 1230

We will post all applications on our website. You should also make your application available to your community through your website.

You are required to submit your application online via the Council Portal on our website and in hard copy by **cob Monday 11 March 2013**. We encourage you to submit your application as early as possible.

Councils intending to submit an application under section 508A are also required to notify IPART of this intention by **cob Friday 14 December 2012**.

Notification is not a requirement for councils intending to submit an application for a single-year increase under section 508(2), but it would help us in our planning if you did notify us of your intentions by this date.

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

How a council has considered and consulted on a special variation in its Integrated Planning and Reporting (IP&R) process is fundamental to our assessment of a special variation application. This is consistent with DLG's October 2012 Guidelines.

As part of our assessment, we will examine whether the council's planning and consultation, as evidenced in its IP&R documents, meets the criteria for a special variation. For example, we will look closely at how the community's service priorities and feedback regarding various revenue options are reflected in the council's application for the special variation.

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

Yes ☒ No ☐

If the answer is *No* and your council still wishes to proceed with a special variation application, we advise you to discuss your IP&R progress and options with us.

The Guidelines provide for transitional arrangements in 2013/14 regarding IPART's assessment of criteria related to the IP&R process (see Box 2.1).

Box 2.1 Transitional arrangements for assessment in 2013/14

The Guidelines provide for transitional arrangements as follows:

In light of the 2012 local government elections and the requirement for councils to review the Community Strategic Plan and Delivery Program and develop an Operation Plan by 30 June 2013, it is recognised that the revised guidelines and application timing may create a difficulty for councils who wish to apply but have not yet completed the necessary IP&R review.

Therefore, for the 2013/14 rating year only, IPART will have the discretion to award a single year variation where it assesses that the general principles of need, community awareness, reasonable ratepayer impact, realistic financial planning assumptions and cost containment and productivity achievement related to the assessment criteria are met by a council, even though the evidence is not necessarily reflected within the councils IP&R documentation.

2.1 Summary of relevant IP&R documentation

Expand the space below to briefly explain the council's IP&R process in the context of the special variation. Include when plans (eg, Asset Management Plan (AMP) or Long Term Financial Plan (LTFP)) first identified the need for a special variation, and when all relevant IP&R documents were reviewed and finalised. If the council has not yet finalised all of the relevant reviews of plans, explain when this is likely to occur.

Upper Hunter Shire Council's Integrated Planning & Reporting documents have identified the need for additional funds to address infrastructure works since the 2011/12 Delivery Program and Operational Plans. In both this document and the

subsequent year's document, reference was made to the possibility of future years Special Rate Variation to address infrastructure issues. Copies of the extracts from the introduction to both documents are attached (see attachment 2.1). Council's initial Long Term Financial Plan 2011/12 to 2020/21 was predicated on a one off Special Rate Variation from 2012/13, the latest version reflects the modified approach of a proposed staged variation over a three year period.

3 Criterion 1: Need for the variation

In this section, you should present a case for the proposed revenue increases by showing why the special variation is needed. The need must be identified and articulated in the council's IP&R documents, including the Delivery Program and LTTP, and AMP where relevant.

Upper Hunter Shire Council has some unique infrastructure issues. The LGA represents 20% of the land mass of the Hunter Valley. It has 55% of the Upper Hunter Region (which comprises Upper Hunter, Muswellbrook and Singleton LGA's) local road network (1,790kms). It also has 32 timber bridges which is 75% of the timber bridges in the Upper Hunter Region.

Upper Hunter Shire Council has identified some infrastructure renewal backlog that are required to bring its roads and bridges network up to a condition that is more acceptable to its community. Council has applied (and been successful) for an interest subsidy under Round 1 of the Local Infrastructure Renewal Scheme for works totalling \$3.215 million. Council has also made application under Round 2 for further works totalling \$2.015 million, giving an overall total of \$5.23 million. The consecutive Special Rate Variations of 2.5% above Rate Pegging over the next three years are planned to fund the principal and net interest repayments after the subsidy over the next ten to twelve years. The renewal work represents funding for the following:-

Rural Roads renewals	\$1.0 million
Bridge Replacement	\$2.69 million
Town Streets renewal	\$1.54 million
Total	\$5.23 million

The works have been identified within Council's Financial Statements, Delivery Program & Operation Plan, Asset Management Plans and Long Term Financial Plan.

3.1 Variations of 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 ☐ No ☒

If Yes, has a review been undertaken?

Yes ☐ No ☐

If Yes, has this been submitted to DLG?

Yes ☐ No ☐

3.2 Strategic planning information

In the section below, provide commentary on how the need for the special variation is reflected in the council's strategic planning documents (ie, Community Strategic Plan and Delivery Program). Provide extracts from or references to the council's IP&R documents as relevant.

Explain the likely benefits of the project, works or other activity the council is proposing to undertake with the additional special variation funds, as outlined in the IP&R documents.

If you are seeking funding for contributions plan costs above the development contributions cap, see Box 3.1.¹

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

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

- ▼ a copy of the council's s94 contributions plan
- ▼ a copy of the Minister for Planning and Infrastructure's response to IPART's review and details of how the council has subsequently amended the contributions plan
- ▼ details of any other funding sources that the council is proposing to seek to use
- ▼ any reference to the proposed contributions (which were previously to be funded by developers) in the council's planning documents (eg, LTFP and AMP)
- ▼ any necessary revisions to financial projections contained in the LTFP and AMP to reflect the special variation.

Upper Hunter Shire Council's Integrated Planning & Reporting documents have identified the need for additional funds to address infrastructure works since the 2011/12 Delivery Program and Operational Plans. In both this document and the subsequent years document reference was made to the possibility of future years Special Rate Variation to address infrastructure issues. Copies of the extracts from the introduction to both documents are attached (see attachment 2.1).

There are a number of benefits from undertaking these projects:-

¹ See Planning Circular 10-025 at www.planning.nsw.gov.au for the most recent Direction issued under section 94E of the *Environmental Planning and Assessment Act 1979*. See also Planning Circular PS10-022.

A significant tourist attraction access is limited due to a bridge being completely impassable (Broads Crossing). The Roads and Maritime Services have committed \$600,000 towards this project. A number of other timber bridges have either load limits or bypass in place that restrict access to certain parts of the shire. There are several streets that were constructed in a growth period in the 1960's that was not constructed to proper standards, individual streets have been identified for reconstruction. Rural roads across the shire have been also earmarked for works totalling \$1.0 million, each road has been identified.

Council is funding these projects through works approved and proposed under rounds 1 and 2 of the Local Infrastructure Renewal Scheme thus taking advantage of a 4% interest subsidy under round 1 and a 3% interest subsidy under round 2. This will assist in Council bring forward the works to address the infrastructure needs and repay the debt through the proposed Special Rate Variation over the next ten to twelve years.

3.3 Financial planning information

The justification for the special variation and its timing must be based on the council's Long Term Financial Plan (LTFP). The LTFP needs to include various budget scenarios, including scenarios with and without the special variation, that are based on clear and reasonable assumptions (see Section 6).

In the section below, explain the need for the variation in the context of the LTFP and the various budget scenarios. Provide extracts from or references to the LTFP as necessary.

It may also be useful to comment on external assessments of the council's financial sustainability (eg, by Treasury Corporation), or the council's recent revenue and expenditure history and how this relates to the need for the additional funding from the special variation.

Upper Hunter Shire Council's current Long Term Financial Plan is based on three scenarios being with the proposed Special Rate Variation of 2.5% above rate pegging over the next three years and then reverting to rate pegging limits, increases based on rate pegging only and a scenario of no rate pegging increases. The model showing the proposed Special Rate Variation clearly shows that Council is able to:-

- a) Address its infrastructure backlog
- b) Take advantage of subsidised interest under the Local Infrastructure Renewal Scheme.
- c) Take advantage of external grant funds to one of the projects
- d) Better utilise Council's capacity to take on additional debt

- e) Fund the works over a number of years and progressively introduce the rate variation to minimise the initial impacts on Council's ratepayers.

The scenario without the Special Rate Variation indicates that Council would have to either not proceed with the infrastructure backlog under the LIRS program or reduce level of services on its infrastructure or to cut services in other areas to fund the works proposed.

The scenario without any rate pegging is not financially sustainable and would not allow for the infrastructure backlog to be addressed.

3.3.1 Prioritization of proposed spending

If possible, also explain how the council has prioritized the proposed spending in its program of expenditure (incorporated into its LTFP and as indicated in Worksheet 6 of Part A of the application form). If a special variation application is approved for a lesser amount than requested, it is useful for the council to be able to indicate which projects would be funded first.

Upper Hunter Shire Council has already received approval for an interest subsidy under Round 1 of the Local Infrastructure Renewal Program. Works to the value of \$3.215 million are currently being planned including calling for tenders for Bridge construction. Works under this program include:-

Broads Crossing Bridge	\$800,000	Funding also provided towards project by Roads & Maritime Services
Middlebrook Bridge	\$615,000	
Doolans Gully Bridge	\$260,000	
Coolibah St	\$230,000	
Koala St	\$60,000	
Short St	\$100,000	
Scott St	\$195,000	
St Aubins St	\$400,000	
Aberdeen St	\$130,000	
Haydon St	\$100,000	

Graeme St	\$200,000	
Mount St	\$125,000	

This would be followed by further works under Round 2 of the Local Infrastructure Renewal Program totaling \$2.015 million. The details are shown below:-

Garlands Bridge	\$620,000
Starrs Crossing	\$310,000
Sandy Creek Bridge	\$85,000
Segenhoe Rd	\$80,000
Gundy Rd	\$120,000
Haydons Lane	\$40,000
Middlebrook Rd	\$100,000
Timor Rd	\$160,000
Glenbawn Rd	\$100,000
Idaville Rd	\$110,000
Dartbrook Rd	\$100,000
Llangollen Rd	\$150,000
Ringwood Rd	\$40,000

Note: Roadwork locations are subject to final adoption in the Delivery Program

A Financial Assessment and Benchmarking Report on Upper Hunter Shire Council was undertaken by the NSW Treasury Corporation and released on the 21 September 2012 as part of the Local Infrastructure Renewal Scheme. The report indicated that Council has the capacity to undertake the additional borrowings applied for under round one of the Scheme.

3.3.2 Alternative options

In explaining why the special variation is needed, you should indicate how the council has considered a range of alternative financing options (eg, borrowing, private public partnerships, joint ventures, user pays) and why the special variation is the most appropriate option. It is important that you explain how the decision to apply for the variation has been made after all other options (ie, alternative revenue sources, changing expenditure priorities, alternative modes of service delivery) have been considered. Once again, provide extracts from, or references to, the LTFF which shows the council's consideration of alternative revenue options.

The Special Rate Variation is proposed to fund loan repayments for the proposed works. It takes advantage of Council's:-

- a) capacity to borrow funds
- b) the opportunity to gain access to an interest subsidy of 4% under Round 1 of the Local Infrastructure Renewal Scheme and 3% under Round 2 of that scheme.
- c) Is leveraged by partial funding from the Roads and Maritime Services totalling \$600,000 towards one of the projects.
- d) Enables Council to stage the proposed Special Rate Variation to reduce the initial impact on its ratepayers

Alternate revenue options are limited for Upper Hunter Shire with the only other option for expenditure of this magnitude being grant funding. All avenues are investigated and as detailed above some additional funding sources have been secured towards some of the work.

Productivity and cost containment strategies that Council has undertaken over recent years have to a large extent offset operating cost increases and revenue constraints without assisting as a source of funds to address Council's Infrastructure backlog.

Council believes that it has developed the best solution to fund its proposed works and utilises all available options to the maximum benefit for the Council.

3.3.3 Impact of special variation on key financial indicators

Outline below how the special variation impacts the council's key financial indicators over the 10 year planning period, as identified in the LTFF. This should include the impact on key indicators under the various budget scenarios (with and without the special variation).

Key indicators may include:

- ▼ Operating balance ratio (net operating result (excluding capital items) as a percentage of operating revenue (excluding capital items))
- ▼ Unrestricted current ratio (the unrestricted current assets divided by unrestricted current liabilities)
- ▼ Rates and annual charges ratio (rates and annual charges divided by operating revenue)
- ▼ Debt service ratio (net debt service cost divided by revenue from continuing operations)
- ▼ Broad liabilities ratio (total debt plus cost to clear infrastructure backlogs (Special Schedule 7) divided by operating revenue)
- ▼ Asset renewal ratio (asset renewals expenditure divided by depreciation, amortisation and impairment expenses)

If the variation is to fund asset or infrastructure expenditure, the application should include an explanation of relevant asset replacement, renewal or repair expenses, and how the expenditure addresses backlogs over time.

The introduction of the proposed Special rate Variation will improve Council's key financial indicators over the life of Council's current Long Term Financial Plan. The table below gives a summary of the average forecasted results with and without the proposed Special Rate Variation:-

Ratio	Average over next ten years with Special Rate Variation	Average over next ten years without Special Rate Variation
Operating Balance Ratio	-2.37%	-4.11%
Unrestricted Current Ratio	3.27:1	3.03:1
Rates and Charges Annual Ratio	36.32%	34.95%
Debt Service Ratio	5.79%	5.90%
Asset Renewal Ratio	101.40%	92.90%

Based on feedback received during community surveys and through consultation in the development of the annual Delivery and Operations Plan it is apparent that the community in general would not like to see a lowering in the standard of public infrastructure and would, in fact like to see deteriorated assets fixed. Asset Management Plans have been developed with a view to reducing the backlog rather than allowing it to grow.

Because there is a backlog of assets that require renewal there is a need for a significant spike in expenditure in the first year of the 10 year modelling period. This cannot be funded in one year so a proposed expenditure model is produced showing how Council intends to invest in asset renewal over a ten year period. A lesser timeframe is unlikely to be affordable without significant rate increases, while a much longer timeframe is likely to be counter-productive as more and more assets deteriorate below a serviceable condition. It is proposed to address the backlog spike by increasing expenditure in the first four years with future years required funding being more or less around the depreciation level. Income derived from a special rate variation will be used over the ten year period to repay loan funding from the Local Infrastructure Renewal Scheme (LIRS). Council is restricted in the number of new or upgraded assets it can create and it will be necessary to prioritise asset renewal over the short to medium term.

4 Criterion 2: Community engagement

To meet this criterion, you must provide evidence from the council's IP&R documentation that the council has consulted on the proposed special variation and that the community is aware of the need for, and the extent of, the rate increases. You should also show that the council has sought to obtain community input on both the proposed spending area, the revenue path in the council's LTFP incorporating the council's proposal, and the community's willingness to pay the rate increases.

In assessing the evidence, we will consider how transparent the council's engagement with the community has been, and that the information provided to the community shows:

- ▼ the proposed rate increases including the rate peg;
- ▼ the alternative rate levels without the special variation;
- ▼ if the requested special variation includes an expiring special variation (see Box 4.1 below);
- ▼ rates on an annual increase basis (and not just on a weekly basis); and
- ▼ if the council is proposing increases for any of its other charges, for example, waste management, when these are likely to exceed CPI increases.

Box 4.1 Does the council seek to renew or replace an expiring special variation?

If so, this needs to be clearly explained to the community. Councils should explain:

- ▼ that there is a special variation due to expire during the time period covered by the current special variation application, or the time period immediately before
 - ▼ that, if the special variation were not approved (ie, only the rate peg were applied), the year-on-year increase in rates would not be as high, or there would be a rates decrease (whichever is applicable)
 - ▼ if applicable, that the expiring special variation is being replaced with a permanent increase to the rate base.
-

Refer to DLG's Guidelines, the IP&R manual, and IPART's fact sheet on community engagement for more information about how community engagement might best be approached.

4.1 The consultation strategy

In the section below, provide details of the consultation strategy undertaken, including the range of methods used to inform the community about the special variation proposal and to obtain community input on this option (eg, media release, mail out to ratepayers, focus group, survey, online discussion, town hall meeting,

newspaper advertisement or public exhibition of documents). Provide relevant extracts from the IP&R documentation to explain the strategy, where possible.

The information should clearly identify:

- ▼ key stakeholders in the consultation process
- ▼ the information that was presented to the community regarding the special variation proposal
- ▼ methods of consultation and why these were selected
- ▼ timing of the consultations (including exhibition of Draft Community Strategic Plan, Draft Delivery Program and Draft Operational Plan as applicable).

Attach relevant samples of the council's consultation material to the application.

Background

In 2010 Upper Hunter Shire Council commissioned Micromex Research to conduct a community survey. The survey was an opportunity for community members to rate council's services and facilities, the level of importance and the level of satisfaction. The final report included a gap analysis to indicate the community perception of priority areas requiring improvement. The gap analysis indicated that road maintenance was the service area with the largest differential between current service delivery and community expectation.

In response to this finding, Upper Hunter Shire Council undertook an internal review of its work practices and in 2011 commissioned an independent review of its rural road maintenance practices. The report undertaken by Opus Consulting indicated that significant additional investment was required to maintain rural roads in line with community expectation.

In its Draft 2011/12 -2014/15 Delivery Program and Operational Plan, Upper Hunter Shire Council indicated, "future constraints of rate pegging will need to be addressed ...to maintain significant lengths of road and timber bridges. Revenue increases above the rate pegging limit will need to be considered...for the long term sustainability of assets and services. Council will actively consider pursuing an application to vary rate income above the rate pegging limit commencing in the 2012/13 financial year." Following a period of community consultation where council invited written submission and held four public meetings, the Development Program and Operational Plan was adopted by council on 22nd June, 2011.

At an Ordinary Council meeting held 24 October 2011, council resolved to "Continue community consultation and engagement with an aim of preparing a submission to IPART for a special rate variation as foreshadowed in the adopted Development and Operational Plan ...under Section 508 (2) for the purpose of

implementing the Strategic Analysis of Roads and addressing the community demands for improved road and bridge infrastructure.”

In February 2012, Upper Hunter Shire Council resolved to defer the application in order to address alternate funding sources and review its operations to ensure maximum efficiency across all areas of operation. A number of reports were prepared for Council's Finance and Works and Technical Services Committees during the past twelve months that looked at all available funding options, sourcing of materials and productivity improvements. A number of cost saving measures have been introduced as a result of those reports particularly in regard to sourcing gravel material.

Reports on proposed Special Rate Variation were provided for consideration at the Ordinary Council meetings in November 2012 and January 2013.

In February 2013, Upper Hunter Shire Council resolved to lodge an application for a special rate Variation commencing in 2013/14.

Upper Hunter Shire Council's Community Interaction Policy

In October 2011, Upper Hunter Shire Council adopted a Community Interaction Policy. The objectives of that policy are to:

- Ensure that community interaction is coordinated and integrated in a consistent manner across Council and utilises the most effective methods and technologies.
- Ensure timely and effective communication with the community on all relevant matters
- Establish, maintain and strengthen partnerships between council and community members
- Outline the requirements for project management of community consultations
- Ensure meaningful community engagement in consultative processes
- Ensure that council decisions are well informed, consider community views and result in the best possible outcomes for the Upper Hunter Shire community.
- Provide a framework and practical tools to guide all council and community interactions
- Build a network of community contacts

Principles of Community Interaction

Upper Hunter Shire Council considers that meaningful and effective community interaction:

- Is based on the belief that those who are affected by a council's decision have a right to be involved in the decision making process within the constraints of the legislative framework;

- Seeks the input and facilitates the involvement of those potentially affected by or interested in a decision;
- Seeks the input of participants in determining how they participate;
- Provides participants with the information required to participate in a meaningful and effective way;
- Recognises that the community may hold a diversity of opinions regarding commercial, community and domestic concerns;
- Communicates to participants how their input affected the decision.

Community Engagement Activities – Proposed Special Rate Variation

UHSC's community interaction policy dictates a minimum level of interaction determined by the nature and scale of the proposed activity. The proposed application for a special rate variation was identified as a highly significant event of importance for the whole shire, requiring, informing, involving and partnering activities.

Between October 2011 and February 2012 Upper Hunter Shire Council implemented a targeted Community Engagement Program to inform and involve the broad community in the consideration of an application for a special rate variation. The Community Engagement Program incorporated the necessary standards outlined in Upper Hunter Shire Council's Community Interaction Policy and reflected IPART's own recommendations for community consultation activities. Four progress reports were considered at Council meetings between April 2012 and February 2013 inclusive, these reports have been publicly available via council's website.(ATTACHED 4.1)

Methodology

The community interaction strategy combined three major approaches, *informing* through the broad distribution of information to community members, *involving* via an independent and statistically significant survey and *involving and partnering* through "opt in" activities open to all community members.

Given the size and geographic distribution of our community, UHSC determined two Target Audiences for the community consultation

- All residents within the shire
- Non residential rate payers.

Informing - Broad distribution of information to community members

Between October 2011 and February 2013 seven media releases were issued outlining various stages of the consultation process and advising of Council's determination to lodge an application for the 2013/14. Media promotion was

designed to inform residents of the opportunities for them to have their say, and to encourage broad participation in all consultation activities. (Attachment 4.2)

In the week beginning 10th January 2012, UHSC distributed more than 6,000 letters to all households, businesses, post office boxes and road side mail boxes within the Upper Hunter Shire boundaries. In addition, non residential rate payers were identified from within the rates data base, and 1,700 letters were sent to non residential rate payers.

This letter outlined council's intention to apply for a special rate variation, the likely average impact for residential and business ratepayers, the proposed uses for the additional expenditure, details of the range of consultation activities and staff contact details for further information. (ATTACHED 4.3)

Involving - Independent Statistically Significant Survey

Upper Hunter Shire Council contracted Micromex Research to conduct a telephone survey. The survey took place in the week commencing 16th January 2012 and was timed to ensure that respondents had received the information. (ATTACHED 4.4.).

The survey was designed to test: -

- The level of support for the proposed special rate variation application
- The community's sense of importance regarding the special rate variation
- The community's priorities regarding the proposed works
- The community's priorities regarding the three components of proposed works

Persons aged over 18 years were eligible to participate and council employees and their immediate family were restricted from participating.

Participants were asked some profiling questions, and then questions relating to the proposed special rate variation and the proposed works to be funded through the additional income.

Informing, involving and partnering - "Opt in" activities

Opt in activities were incorporated within the consultation program to provide residents with opportunities to "have their say" in various ways and at different stages within the consultation timeline. The "opt in" activities provided council with a mechanism for gauging community opinion and concerns and providing information in response to emerging trends and concerns.

Opt in activities included;

- Four Community Forums
- On line Survey
- On line Comments
- Invitation to attend Stakeholder Meetings
 - Invitation for written submissions
 - Invitation for telephone based submissions

The trends from written submissions, the on line survey and on line comments were reviewed prior to the preparation of council's presentation for the community forums. Efficiencies, costs savings, council's priorities and workforce excesses were identified as common areas of concern, and the council's presentation included information on these "elephants in the room". In addition, financial details, an outline of the proposed works schedule and preliminary findings from the Mircomex survey were included. (Attachment 4.5)

It is important to note that "opt in" activities were not intended as statistically significant consultation activities. No restrictions were placed on community member's participation in multiple streams or multiple contributions to one particular activity.

At least four residents attended more than one community forum, contributed written submissions, lodged phone calls and took part in on line activities.

2012/13 – 2015/16 DPOP Informing and Involving

In the 2012/13 – 2015/16 DPOP council advised that "the draft 2013/14 Budget was prepared with the scenario of a 7% Special Rate Variation above the predicted 3% Rate Pegging Limit" and that Council would act "prudently for the long term sustainability of assets and services...in order to undertake the essential asset maintenance and works required to achieve long term sustainability and meet community needs, particularly infrastructure such as roads and bridges."

The Draft DPOP was placed on public exhibition for 28 days, in addition

- 6,000 letters were distributed to all households and businesses and non residential rate payers
- Four Community Forums were held
- Invitations were extended for Stakeholder Meetings
- Invitations were extended for written submissions

- Council's website hosted an option for on line comment
- Invitations were extended for submissions by telephone

Council's 2012/13 Delivery Program and Operational Plan was adopted by Council on 21st June, 2012.

4.2 Outcomes from community consultations

In this section provide a summary of the outcomes from the council's community engagement activities, as presented in the council's IP&R documentation (eg, number of attendees at events, percentage of responses indicating support for certain services/projects or rate increases, overall sentiment of representations, results of surveys).

Also provide a summary of submissions received in response to the exhibition of the Draft Operational Plan where they relate to the proposed special variation. Identify the nature of the feedback related to the proposal (including by relevant stakeholder group) and any action proposed by the council to address issues of common concern.

Attach copies of relevant documentation eg, survey reports to the council.

Key Findings from Independent Telephone Survey

- 72% of residents indicated that it is at least somewhat important that council is granted the requested special rate variation
- 61% of residents are at least somewhat supportive of the proposed special rate variation
- 96% of residents have indicated they believe council should implement plans and programs to provide better infrastructure
- The proposed capital works elicited a high (90% plus) level of community support

Opt in activities

- Four Community Forums total attendance = 196
- Hard copy surveys distributed at community forums = 49 returned (Attached 4.6)

- Stakeholder meetings – no requests for stakeholder meetings
- On line comments – 42
(Attached 4.7)
- Letters and written submissions 31
(Attached 4.8)
- Telephone calls – 25
- On line survey – 134 responses
(Attached 4.9)

Findings from opt in activities

Combined results of on line and hard copy

- 89 % believed council needed to spend more on roads and bridge

Themes emerging from Opt in consultation activities

A review of all written submissions, notes from the question and answer sessions at community forums and the commentary in all surveys was undertaken to contribute to a determination of the community's sentiments regarding the proposed special rate variation.

The response from community members has not been a simple yes or no. The review has identified seven areas of concern consistent across all consultation activities. During consultation activities, concerns outside the scope of the special rate variation application were raised. These concerns have been forwarded to relevant divisions.

Council's responses to the areas of concern regarding the Special Rate Variation community consultation

Council's responses to the seven broad concerns regarding the special rate variation are documented below.

- Efficiency and effectiveness in work practices.
 - Section 7 of this application outlines the reviews, programs and activities council has undertaken to achieve improved efficiencies and effectiveness in recent years.

- The independent Audit report for 2010/11 found that... “Overall the financial indicators show that Council's financial standing is sound. Infrastructure management will need to be a continued focus for Council in the long term and reflected in Integrated Planning and Reporting.”
- Council undertakes regular reviews of all practices to identify potential savings; Section 7 of this application discusses productivity improvements in detail.
- Representation of community views and transparency of application process.
 - Council did not hesitate to make a public commitment that all submissions and the results of all consultation activities would be presented to IPART for its consideration those findings are attached.
(Attachment 4.10)
 - In addition to the application being available on IPART's website, Council will make its application including all attachments publicly available via its own website.
- The determination of priorities for expenditure on public facilities and programs.
 - Community members have varied preferences for council's activities, ranging from “roads, rates and rubbish” through to the guarantee of access to medical services, youth activities and water safety programs for toddlers. Council seeks partnerships with the private sector, government funding programs and community organisations to respond to the diversity of community need and opportunity for growth. Where council assumes full responsibility for an activity it is undertaken following due consideration of the burden it places on council's cash and human resources and the benefits delivered to the broader community.
 - Council undertakes extensive community consultation during the preparation of its Development Program and Operational Plan and in the preparation of its Community Strategic Plan. Written submissions are encouraged and community forums are held in the four major townships and stakeholder meetings are organised whenever and wherever requested. These consultation activities inform council's priorities and are reflected in the content of the Community Strategic Plan and the Development Program and Operational Plan, which in turn determine the priorities for expenditure on public facilities and programs.
 - Council has openly and widely discussed the individual projects that make up the projects that were proposed under the two rounds of the Local Infrastructure Renewal Scheme.
- The impact of the proposed special rate variation on categories of rate payers, in particular pensioners and rural landholders.

- Council has paid particular attention to the vulnerability of low income households to any increase in the general rate levy. The staging of the increase over three years will lessen the impact on low income households. In addition council has allowed the maximum possible support for ratepayers experiencing hardship. Council's hardship policy has supported rural land holders during the extended period of drought and individuals during times of personal challenge. Council's policy allows for older citizens to offset outstanding rate payments against their estate. Council is committed to managing repayments so that senior citizens do not lose the security of their family home.
- The investigation of alternate sources of funding for proposed road and bridge works.

Refer to Section 7 of the application for how Council has been addressing productivity improvements and cost containment strategies.

The opportunity for subsidised interest under the Local Infrastructure Renewal Scheme was also seen as an opportunity for Council to address the Infrastructure backlog concerns raised by its community.

- The quality and equity of services provided by council.
- Council has presented a revised Road Asset Management Plan for consideration by the Works and Technical Services Committee in response to the Review into Rural Roads. The revised Asset Management Plan includes improved criteria for scheduling maintenance and repairs and an updated road hierarchy. The new Asset Management Plan incorporates modifications to maintenance techniques such as improvements to management of water flows and widening the shoulders on medium traffic unsealed roads.
- Expectations regarding equity of service need to be managed carefully. Council has been consistent in informing the community that it is beyond council's means (and an ineffective use of public resources) to seal all the rural roads within the shire's boundaries. In the context of roads and bridges, council is committed to delivering equity of service by providing all residents with safe roads to enable travel to work, attendance at school and access to town centres. During periods of serious rain events and flooding, council enacts emergency procedures to provide residents with safe access to their properties as soon as practicable.
- Equity of service across all geographic areas of the shire is a guiding force in the determination of council's activities. The proposed works program to be funded through the special rate variation has been determined as a direct result of the inherent and historical needs and differences within the shire's boundaries. The replacement of timber

bridges in the north-east region, the upgrade of rural unsealed roads in the black soil area western district and urban infrastructure in the township of Scone.

- Council's accountability for the expenditure of these additional funds if the special rate variation application is successful.

Refer to Section 8.2 of this application.

2012/13 – 2015/16 DPOP “Opt In” Community Engagement Activities

- Four public Forums – Total attendance 40
- Stakeholder Meetings – Total Attendance 25
- Direct comments/questions Special Rate Variation – 2
- Question on cumulative impact of Special Rate Variation
- Comment comparing increases in rates and decline in revenue from agriculture
- Written Submissions – 18
- Direct comments/questions Special Rate Variation – 0
- On Line Comments - 0

Key Findings



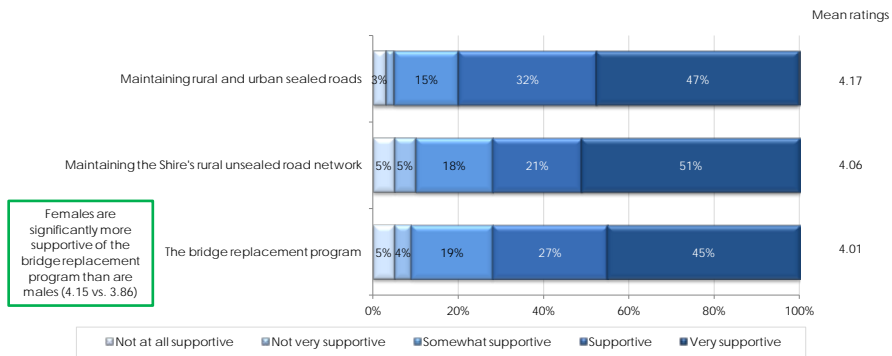
A significant number of residents are in favour of Council's proposal

- ⇒ *61% of residents are at least 'somewhat supportive' of Upper Hunter Shire Council introducing a special rate variation to fund the described delivery program*
- ⇒ *72% of respondents feel that it is at least 'somewhat important' that Upper Hunter Shire Council is allowed to introduce this special rate variation*

All 3 Of The Proposed Components Elicited A 'High' Level Of Community Support



Q7a. On a scale of 1-5, where 1 is not at all supportive and 5 is very supportive, how supportive are you of each component that will be funded by the proposed rate increase?



Weighted base: n = 415

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

There is strong community support for the proposed road maintenance & bridge replacement programs

micromex
research 21

5 Criterion 3: Rating structure and the impact on ratepayers

Councils must also fill in the worksheets in Part A of the application in order to provide the information and calculations underpinning the proposed rating structure, the impact of the special variation and rate increases.

5.1 Proposed rating structure

In the section below, provide an explanation of the proposed rating structure for the variation under two scenarios – the proposed rating structure if approved and the proposed structure should it not be approved.

Upper Hunter Shire Council's current rating structure includes a single Farmland Rate as well as a number of subcategories for both Residential and Business Rates catering for different service levels for its 4 major towns, various villages and for rural areas. Council rates its ratepayers using an Ad Valorem and Minimum Rating system.

The proposed Special Rate Variation does not require any significant changes to the current structure as the initial proposed asset renewal works under the Local Infrastructure Renewal Scheme relate to assets across the shire. It is therefore proposed to apply the Special Rate Variation across all existing rating categories.

If the Special Rate Variation is not approved then the rate pegging limit would also be applied across all rating categories.

5.2 Impact on rates

Comment on the cumulative impact of the proposed increases on different rating types and categories, as detailed in Worksheet 5 of Part A of the application, and explain why the rate increases are reasonable.

Include an explanation of any differences between the requested percentage increases of different rating types or categories.

Also include commentary on average rates (defined as Notional Income Yield divided by the number of assessments for each rating category, sub-category or special rate) and the impact of the proposed rate increases across the rates distribution.

Provide references from the relevant pages in the council's IP&R documents to demonstrate reasonableness.

Upper Hunter Shire Council believes that the existing rate mix between categories represents a fair and equitable distribution of its rates. The proposed additional works to be funded under the Special Rate Variation are across all categories of rates and accordingly should be distributed according to the current rate mix. Council also believes that land values represent the most effective way and best measure of ability to pay to fund the proposed variation.

Upper Hunter Shire Council believes that the 2.5% increase per annum above rate pegging over each of the next three years will not have a major impact on the majority of its ratepayers. The proposed progressive increase will reduce the initial impact of the variation for Council's ratepayers and residents.

The impact for minimum rates is detailed in 5.2.1. It should be noted that the impact of the maximum minimum rate has been taken into consideration as it affects one sub category under Residential Rates. It is proposed that the minimum for this sub category only increase to the approved limitation and that the small adjustment required by reallocated to the Ad valorem section of the same sub category.

The following table shows the cumulative impacts against each category excluding Minimum Rates of proceeding with the Special Rate Variation and only taking up the rate pegging limits over the three year period of the proposal:-

Category	Average rates after three year with SRV	Average rates after three year with Rate Pegging only	Difference after 3 year of cumulative increase between SRV and Rate Pegging only
Residential	\$911	\$848	\$63
Business	\$1,737	\$1,608	\$129
Farmland	\$3,463	\$3,223	\$240
Mining	\$3,839	\$3,563	\$276

Again it is felt that the impact of the cumulative effect of the proposed Special Rate Variation should not have an unreasonable impact on Council's average ratepayers especially with the increased staged over three years.

The average impacts against the Notional Income for 2013/14 for each category are shown in the table below:-

Category	Notional Income	Number of assessments	Average
Residential	\$3,432,847	4,985	\$688
Business	\$596,274	506	\$1,178
Farmland	\$4,798,398	1,674	\$2,866
Mining	\$79,330	23	\$3,449

The impact between categories is consistent with previous rating models and is somewhat representative of how the additional funds are to be spent between rural and urban areas of the shire.

In regard to the affects of any growth in rateable properties this is not expected to have any significant impact on Council's operating results. As the growth of Upper Hunter Shire comes mainly from land subdivisions rather than strata developments it is assumed that any increase to the rate base will be largely offset by an increase to renewals and operating costs of new infrastructure.

5.2.1 Minimum Rates

Does the council have minimum rates? Yes ☒ No ☐

If Yes, provide details of the proposed increase in minimum rates and the proposed share of ratepayers on the minimum rate for the relevant category, with and without the special variation.

Upper Hunter Shire Council does have minimum rates the details of the proposed changes to Council's Minimum Rates are as follows for 2013/14:-

Category	Minimum (without rate pegging)	Minimum (with special rate variation)	Percentage of category on Minimums
Farmland	\$406	\$430	9%
Residential	\$406 - \$458	\$430 - \$474	38%

Business	\$406 - \$458	\$430 - \$474	38%
Mining	\$40	\$40	0%

Of the 2,472 assessments on minimum rates, residential properties represent the major portion (86%). The proposed cumulative effects of the staged increase on the minimum rates increase over the next three years (assuming future years rate pegging of 3% in future years) is shown by the following:-

Category	Average rates after three year with SRV	Average rates after three year with Rate Pegging only	Difference after 3 year of cumulative increase between SRV and Rate Pegging only
Farmland	\$479	\$445	\$34
Residential	\$495	\$476	\$19
Business	\$495	\$476	\$19
Mining *	\$0	\$0	\$0

* There are no Mining rates on minimums only.

5.3 Community's capacity to pay proposed rate increases

Discuss the capacity of ratepayers (in each sub-category) to pay for the rate increases. Provide relevant supporting information from the council's IP&R documentation, in particular any reference to the "affordability" of the proposed increases. Examples of supporting evidence could include discussion of affordability measures such as SEIFA rankings, land values, average rates and disposable incomes, or the outstanding rates ratio. It could also include comparisons of socioeconomic indicators or rate levels with peer group councils. Remember that the amount of information required is generally proportionate to the size and complexity of the proposed increase.

IPART may consider indicators such as the SEIFA index rankings and income levels, as well as the council's current average rate levels, as part of its assessment of capacity to pay in the LGA, even if the council does not provide this information in its application.

Socio-Economic Indexes for Area (SEIFA)

The 2006 SEIFA index for Upper Hunter Shire region was 978.

The range for the various regions in the state is 764.6 to 1143.3. This would indicate that Upper Hunter Shire region is about mid way compared to other regions of NSW. This would indicate that the shire is not an unduly disadvantaged area and has the capacity to pay the proposed Special Rate Variation.

A comparison from the 2010/11 NSW Comparative Information on Councils indicates that the average rates are:-

Rating Category	Upper Hunter Shire	Group Average
Residential	\$560.48	\$612.50
Business	\$934.91	\$1,726.72
Farmland	\$2,552.28	\$2,349.16

This shows that the residential and Business categories have the capacity to pay when comparing against other similar sized Councils. Farmland is a difficult category to compare as property sizes varies both across the shire and across the state which makes an accurate comparison difficult.

5.4 Addressing hardship

Does the council have a Hardship Policy in place? Yes ☒ No ☐

If Yes, is the Policy identified in the council's IP&R documentation? Yes ☐ No ☒

Note: included in the draft 2013/14 Delivery Program and Operational Plan under Council's Revenue Policy

Please attach a copy of the Policy to the application.

Does the council propose to introduce any measures to limit the impact of the proposed special variation on vulnerable groups such as pensioners? Yes ☒ No ☐

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

Upper Hunter Shire Council understands and acknowledges that affordability maybe an issue with some sectors of the community. Council has modelled the increases required over a staged three year basis to reduce the impact to its ratepayers. The annual cost for 2013/14 for minimum rates for residential properties which includes the majority of vulnerable is proposed to increase by only \$24 which includes rate pegging; the special rate variation component of the increase is only \$9 for the year.

Council has made efforts to mitigate some of the impact through its Hardship Policy and to offer flexibility in dealing with ratepayers to organise repayments to fit with individual specific circumstances. Council also offers a broad range of payment options including weekly direct debits to assist ratepayers with meeting their payment requirements.

The Upper Hunter Shire Council's Hardship Policy is included below.

UPPER HUNTER SHIRE COUNCIL

RATES AND VALUATIONS – POLICY – *Hardship*

Policy

1. Council may write off interest charges in accordance with an arrangement to finalise a debt owed to Council by a ratepayer who is suffering personal financial hardship under sections 564 and 567 of the Local Government Act 1993.
2. The General Manager has delegated authority from Council to write off amounts up to \$1,000.00. The Director Corporate Services has delegated authority from Council to write off amounts up to \$300.00.
3. The General Manager and Director Corporate Services may determine whether a ratepayer is suffering personal financial hardship.
4. Under section 577 of the Local Government Act 1993, Council may write off rates due to hardship where a pensioner is solely responsible for the rates on a property.
5. Under section 601 of the Local Government Act 1993, Council may write off rates due to hardship in the first year of new valuations. In general, no rates are written off by Council in relation to the personal financial hardship of ratepayers in these circumstances.

Objective

To clearly state the circumstances under which Council will consider the personal financial hardship of ratepayers.

Procedures/Practice

A ratepayer who is suffering personal financial hardship may apply to Council to pay a debt to Council by making regular payments in order to finalise that debt. Council or the General Manager or Director Corporate Services under delegated authority from Council may write off interest if they are of the view that the ratepayer is suffering genuine personal financial hardship.

References

- Local Government Act 1993
- Delegations of Authority from Council
- This policy was adopted by Council at its meeting on 25 February 2013 and was originally adopted by Council at its meeting on 28 September 2009

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

The council's planned service delivery and budgeting must be based on realistic assumptions in order for an application to be approved by IPART.

Given the importance of the Delivery Program and LTFP in providing the strategic and financial justification for a special variation, it is critical that the assumptions underpinning these plans, in particular, are realistic. Questions that we will consider in assessing this criterion include:

- ▼ Is the proposed scope and level of service delivery in the Delivery Program appropriate given the council's financial outlook and the community's priorities?
- ▼ Are the council's estimates of specific program or project costs which have been incorporated into the LTFP feasible and based on an efficient allocation of resources?
- ▼ Are the council's projected cost components (including labour costs) in the LTFP based on realistic assumptions?
- ▼ Has the council incorporated other realistic assumptions about the expected rate of growth in the LGA?

In explaining the council's assumptions, identify any industry benchmarks or independent cost assessments that have been utilised by the council in developing them. Also include details of any relevant research or feasibility work undertaken eg, related to new program or project costs.

6.1 Delivery Program assumptions

Explain the key assumptions underpinning the council's Delivery Program and why they are realistic. For example, assumptions will relate to:

- ▼ the community's priorities and expectations, in order of importance
- ▼ proposed level of service for assets
- ▼ speed at which asset backlogs are to be addressed
- ▼ speed at which other identified gaps in service provision are addressed.

Council's Community engagement has traditionally focused around infrastructure and the need to improve Council's assets to a level that meets the community expectations. This is highlighted in the two community surveys conducted since the Upper Hunter Shire was formed in 2004. The number one priority has been around roads and bridges. This has also been reflected in the annual meetings with the community and with submissions received in regard to Council Delivery Program and Operational Plan and the Community Strategic Plan.

Accordingly Council's Delivery Program biggest single focus is around roads and bridges infrastructure in keeping with the community's expectation. Council has identified a program of infrastructure works which will reduce the infrastructure backlog through the Local Infrastructure Renewal program, funded by the Special Rate Variation.

Council does not have the capacity to fully address its backlog program without the additional revenue of a Special rate Variation and Local Infrastructure Renewal Scheme method of funding, without a significant impact on services delivery across a range of activities.

According to community survey and Council's own operational reviews, service levels across the range of activities are broadly achieved, however, it is the issue of asset renewal and infrastructure where operational resourcing and available capital resources have not been achieved the long term objectives.

Broadly the rate pegging limit, with ongoing cost containment and productivity improvements have allowed the ongoing operations to maintain levels of service and activities. However, resourcing of accumulated backlog of infrastructure renewals following on from amalgamation, together with achieving sustainable asset renewal/replacement of road and bridge infrastructure cannot be achieved within the rate pegging limit, without additional revenue.

The works are being planned to be carried out over the next three to four year period through the loan borrowing under the Local Infrastructure Renewal Scheme and repaid over a ten year loan period. The fast tracking of these works will, over time, free up Council resources to further reduce other backlog works.

Both Council's Delivery Program and Operational Plan and Workforce Plan have considered the impact of these works. The majority of the works will be contract works and do not influence Council's Workforce. There is capacity in Council's works program for the balance of works to be undertaken.

6.2 Long Term Financial Plan assumptions

Explain the key assumptions underpinning the LTFP and why they are realistic. For example, assumptions will relate to:

- ▼ the rate peg (if different from 3%)
- ▼ rate of growth in labour costs
- ▼ rate of growth in non-labour costs
- ▼ cost of service provision in the council's proposed program of expenditure (as per Part A)
- ▼ level of cost recovery for provision of services (eg, full or partial cost recovery)

- ▼ expenditure growth rate
- ▼ major asset disposals/investments/capital commitments
- ▼ population and rate assessment growth rate
- ▼ major borrowings/repayments
- ▼ grants and other revenue.

Upper Hunter Shire Council's Long Term Financial Plan assumptions have come from the Community Strategic Plan whilst others have been derived from general financial planning practices. Assumptions from the Community Strategic Plan include:-

Population forecasts

The number of rating assessments has been assumed, across the life of the plan, to increase by approximately 30 assessments per annum.

Inflation forecasts

The Consumer Price Index (CPI) All Groups Sydney for the 12 months to the December quarter each year is used to derive inflationary forecasts for the term of the plan. The CPI for the quarter ending December 2012 was 2.5% and is the index used in the majority of income and expense items in 2013/14. Thereafter, a 2.8% inflation rate is assumed for the life of the plan.

Major Borrowings/ repayments

Council's Debt Service Ratio increase in the early part of the Long Term Financial Plan with borrowings under the Local Infrastructure Renewal Scheme and for the next stage of the Scone Water Augmentation project. Council's Debt Service Ratio remains within the industry benchmark of under 10%.

Grants and other revenues

The Long Term Financial Plan assumes that the financial assistance grant will increase at a rate of 2.8% each year for the term of the plan. The majority of other grants are tied to specific works and cannot be used for any other purpose. The expected grant income is included in the year that the grant is to be expended and where the grant funding is not forthcoming the grant component of the grant project is either deleted or deferred.

The plan has included a 2.5% CPI increase in the majority of Other Revenues for 2013/14 and thereafter assumed a 2.8 % CPI increase over the term of the plan.

Rate of growth of costs

The Long Term Financial Plan assumes an increase each year of 4% to cover wage increases and increases in employee on-costs.

Materials and contracts are assumed to increase at 2.5% for 2013/14 and thereafter at a rate of 2.8% over the life of the plan.

7 Criterion 5: Productivity improvements and cost containment strategies

In this section, provide details of any productivity improvements and cost containment strategies that the council has undertaken in the last 2 years (or longer), before considering an increase in rates.

Also provide details of plans for productivity improvements and cost containment strategies during the period of the special variation. These proposed initiatives, which may be capital or recurrent, must be to reduce costs.

Where possible, all productivity improvements and savings (including forward plans) should be quantified in dollar terms. The council may also wish to identify its current and/or projected financial position without the (savings) initiatives.

Productivity improvements should include consideration of:

- ▼ levels of service provision (eg, utilisation rates of community halls and number of service enquiries per FTE)
- ▼ measures of input (eg, FTE levels, contracting costs)
- ▼ reviews of organisational structures or service delivery.

Identify how and where the proposed initiatives have been factored into the council's resourcing strategy (eg, LTTP and AMP).

As additional supportive information, the council may wish to provide evidence of improvements in its performance on key indicators that measure productivity or efficiency. This information is not essential for this criterion to be met. However, we will be reviewing the council's labour costs against the DLG Group average, to help assess the council's costs.

Like all business, Upper Hunter Shire Council has continually sought to reduce the input costs across the broad range of functions and activities to contain, if not reduce the costs of its operations, together with continual improvement processes for productivity improvements, to do more work for the same costs.

As has been reported to Council and the broader community through the engagements on the 2011/12 and 2012/13 Delivery Program & Operational Plans, a range of strategies and activities have been undertaken to both improve productivity and reduce costs.

Council has maintained a balanced budget for at least the last 10 years and has developed a long term financial plan and asset management strategy for the next ten years based on a balanced cash budget.

Productivity and cost containment strategies that Council has undertaken over recent years have to a large extent offset cost increases and revenue constraints.

Workers Compensation

Workers compensation premiums have been targeted, and a program focusing on early reporting of incidents, earlier intervention by Council in the return to work process, and the facilitation of light duties in all cases, has seen premiums drop from \$1,021,121 in 2009/2010 to \$639,867 in 2011/2012, a decrease of \$381,000 per year.

Electricity Reduction

During 2011, Council competitively tendered its electricity supply, generating savings of approximately \$35,000 per year on supply costs, though the increase in electricity charges have more than compensated for the savings in the period since tendering the supply of electricity.

Council also considers the energy consumption of any new asset built and integrates energy efficiency into the design. A recent example is the installation of solar lighting in a new CBD carpark.

Outsourcing

Council regularly uses specialist contractors and consultants to deliver a range of non-core tasks such as bitumen sealing, pavement stabilisation and bridge design and construction. These tasks have high capital set-up costs and/or specialist knowledge. These 'specialist' contractors can be a more efficient and cost effective way of delivering quality services to the community, without the recurrent employee costs or the high capital input costs.

The decision to outsource activities is made on a rationale of value for money, not limited merely to price.

Hunter Councils

Upper Hunter Shire Council is a member of Hunter Councils, the regional organisation jointly owned by all the councils within the Hunter Valley region, including Upper Hunter Shire Council.

Hunter Councils operates a number of direct delivery services to member councils as well as other councils, private industry and Government agencies. It operates a Records Repository for the storage of records in accordance with the state Records Act and is able to provide this service at a lower cost and more efficiently than each Council doing it, including Upper Hunter Shire Council.

Hunter Councils provides a procurement service through Hunter Procurement which includes joint tendering for services at a lower cost and economy of scale through volume tendering which significantly lower costs of materials, which make a significant cost saving Councils spend at Hunter Procurement is annually about \$1.5 million with a projected saving of at least 5%, overall.

Hunter Councils provide legal services through Local Government Legal and training and staff development through the Local Government Training Institute which both provide specialist services at a lower cost than each council could achieve individually.

Workforce

Council's workforce consists of a full-time equivalent of 191. Casuals and temporary workers are used as peak work loads and seasonal work loads require. This EFT figure has only increased due to the transfer of regional library staff back to each individual Council (essentially staff providing the existing service), and the acquisition of the Early Learning Daycare Centre which is self funded with no contribution from general rates, though employs 20 people permanent, part time and casual.

Council's core operational staff numbers have not increased since amalgamation in 2004 despite the retention of offices and staffing levels in each of the communities of Scone, Merriwa and Murrurundi, while coupled with an expansion in the services provided for the community through agency services such as Hunter Mutual banking services, Roads & Traffic Services, and NSW Maritime Services, as examples, more work is being done more efficiently and productively with the same staff.

Fuel Efficiency

A 20% reduction in fuel usage over the last 4 years has seen a reduction in the volume of fuel purchased, offsetting to some extent the increase in fuel cost.

This was achieved by a three pronged strategy:

- i. Introducing fuel efficiency as a mandatory consideration in the evaluation criteria for new plant purchases.
- ii. Introducing the RTA's 'Green Fleet' program, and retrofitting diesel filters to existing plan and diesel pumps where necessary to improve the quality of the diesel being used.
- iii. A downsizing of Council's light vehicle fleet from predominately large 6 cylinder sedans to more a fuel efficient fleet of 4 cylinder diesel and petrol engine small and medium sedans where practical.

This reduction in fuel usage has been achieved with no reduction in services over the same period.

Continuous / Ongoing Improvement

Upper Hunter Shire council has been undertaking a specific productivity improvement program under its banner of competitive provision of services, including a specific focus on unsealed road maintenance activities, one of the largest components of Council's budget and therefore the opportunity for the largest gains.

In 2011 OPUS consultants were engaged to independently review the current road maintenance activities, equipment utilised, levels of service provided and benchmarked performance. The review found that overall Council was doing

things right and utilising the right type of equipment but was, in some areas over-servicing, in terms of road parameters such as formation width and pavement, while in other areas was deficient, often due to a lack of suitable materials in the local area.

Since then, each month, activities are monitored to continually improve rural road maintenance activities and demonstrate efficiency and productivity.

Whilst this program is ongoing, the relative cost and productivity, the value of these changes is, of necessity gained within that activity to do more work, respond to the deficiencies and provide a more equitable level of service across the Shire.

Other work method improvements in road maintenance have been implemented to reduce costs.

- The introduction of 'dog' trailers to Council's haulage fleet has enabled greater gravel quantities to be moved quickly and reduced the unit cost per tonne of gravel.
- Multi-skilling of truck drivers to allow self loading at the quarry, reducing the need and cost of a dedicated loader operator. This change in work practice has improved productivity to increase work done for the same cost.
- Improvements have been made to Council's road maintenance practices through further operator training and progressive implementation onto the road network within the normal grading / maintenance program.
- Increasing pavement crossfall to a consistent 4 – 6% reducing the damage caused by lying water.
- Improving table drains where possible to prevent degradation/erosion of road shoulders.
- Introduction of a specific cross drainage maintenance program.
- Grading back road width 'creep' and excess pavement gravel from verges.
- Council's pavement management and maintenance planning will be further improved by capturing additional, real time data on pavement conditions, drainage deficient sections and high areas of wear or gravel loss. This will assist in planning maintenance priorities and improved allocation of resources to roads with the greatest need. New technology and systems are included in the Delivery Program & Operational Plan.

Gravel Resources / road Pavement Materials

Good quality gravel material is diminishing in certain areas of the Shire and the cost of haulage of appropriate gravel has been increasing in line with the rising cost of fuel.

Council has reviewed its existing gravel resources to identify areas that require the development of new resources in strategic locations. New quarries have been approved for development in the current year.

As well as the development of new gravel quarries in key locations, Council has also reviewed its extraction methods to ensure the best quality of gravel is produced for the least unit cost per tonne.

Work Practices

Due to the size of the Upper Hunter Shire Council, and the distances travelled to work sites, a large portion of the work day can be absorbed in travel time for maintenance crews. Council has reviewed current work practices. The hours of operation and further flexible working arrangements have been reviewed along with travel time and strategies for longer working days on the job site. This has increased the machine operating time on roads, particularly those roads that are large distances from Council's depots, providing better productivity, enabling more work to be done for the same cost.

The Upper Hunter Shire is a large area of 8100 square kilometres where operational staff may have to travel 2 to 3 hours each day from depots to worksites and return. Extending working hours on these long distances has a significant impact on productivity, reducing the period of travel and improving value for money for Council and its ratepayers.

8 Other information

8.1 Previous Instruments of Approval for expiring special variations

If your council has an existing special variation which is due to expire in the proposed special variation period, we request that you attach a copy of the Instrument of Approval for this variation, which has been signed by the Minister or IPART Chairman.

Not Applicable – Upper Hunter Shire Council has not applied for a Special Rate Variation since its inception in 2004.

8.2 Reporting

Provide details of the mechanisms that the council will put in place to transparently report to the community on the special variation (being applied for).

Indicate how the council proposes to report this information to the community and what performance measures it will be putting in place to measure the success of the projects or activities funded from the variation.

As specified in the Guidelines, reporting information should clearly identify:

- ▼ the additional income obtained through the variation
- ▼ the productivity offsets outlined through the variation
- ▼ the projects or activities funded from the variation
- ▼ details of any changes to the projects or activities funded from the variation compared with the council's initial proposal (noting such changes must be consistent with the terms of the Instrument of Approval)
- ▼ the outcomes achieved as a result of the projects or activities.

The increase above rate pegging is to fund the loan repayments (both principal and interest) less the NSW subsidy under the program for individually identified works under Round 1 and Round 2 of the Local Infrastructure Renewal Scheme totalling \$5.23 million. The additional funds raised will be fully used in funding the net loan repayments over the next ten to twelve years. All projects have already been identified and detailed to the community.

Upper Hunter Shire Council intends to report the outcomes from the proposed Special Rate Variation through:-

- a) Its monthly reporting of its progress of the works through both its Finance and Works and Technical Services Committees, which are open to the public and reports are published on Council's website.
- b) Through commentary information within its Annual Report
- c) Unexpended loan funds will also be shown in Council's Financial Reports under Note 6 until all funds have been expended.

8.3 Council resolution

Attach a copy of the council's resolution to apply to IPART for the special variation.

Note that IPART's assessment of the application cannot commence without a copy of this resolution.

See Attachment 8.3

9 Checklist of application contents

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

It is the responsibility of the council to provide all relevant information as part of this application.

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 (name): Daryl Dutton

Signature Date:

Responsible Accounting Officer (name): Steve Pryor

Signature Date:

Once signed, this certification must be scanned and submitted with the council's application.