SPECIAL VARIATION APPLICATION FORM PART B

FOR APPLICATIONS FOR 2014/15

GUYRA SHIRE COUNCIL

DATE SUBMITTED TO IPART: 24 FEBRUARY, 2014

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INTRODUCTION

The Guyra Shire is a local government area situated in the New England region of New South Wales, Australia. Guyra Shire is a small rural based Council, servicing a modest population of 4,397. The Council services the Guyra and Tingha townships along with the villages of Ebor, Ben Lomond, and Black Mountain. Each of these towns and villages has a unique aspect and varied service level requirements.

The Mayor of Guyra Shire Council is Councillor Hans Hietbrink and Deputy Mayor is Councillor Audrey McArdle, the remaining four councilors are Cr Dean Heagney, Cr Simon Murray, Cr Dorothy Vickery, and Cr Lee Martin.

In 2009/10 Council was successful in securing a special rate variation of 8.43% (which included a rate cap of 3.5%). This special rate variation is set to expire in June 2014, which will result in a decrease in Council's revenue. The additional funds have significantly assisted Council in providing the required maintenance and upgrades to roads, drainage, and village plans. It is proposed in this application that this special rate variation be continued permanently.

The Council is currently seeking a Scenario 2 508(2) special rate variation. A teleconference with IPART regarding the application took place on 7 November 2014.

Council's resolved to apply to IPART for a Special Rate Variation on 28 October, 2013, and the required notification letter was sent to IPART on 26 November, 2013.

Council's resolution, 28 October 2013:

6.4 Special Rate Variation Application

Ref: GINT/2013/02525

209/13 **Moved Cr Vickery** **Seconded Cr Martin**

a) **That Council note the Special Rate Variation Report.**

b) **That Council resolve to apply for a special rate variation commencing in the 2014/15 Financial Year.**

c) **That Council authorise the General Manager to inform Independent Pricing & Regulatory Tribunal (IPART) of Council's intention to apply for a Special Rate Variation.**

The Motion on being put to the vote was CARRIED.

2 FOCUS ON INTEGRATED PLANNING AND REPORTING

Guyra Shire Council has developed a comprehensive set of plans in accordance with the Integrated Planning and Reporting (IP&R) Framework. Following the 2012 Local Government Election Council undertook an extensive review of these plans.

The plans adopted by Council are provided on Council's website via the following link: http://www.guyra.nsw.gov.au/index.php?option=com_content&view=category&id=3204&Itemid=4413

IPR Document	Date Adopted	Link
Community Strategic Plan	24/06/2013	http://guyra.local-e.nsw.gov.au/images/documents/guyra/IPR/Community%20Strategic%20Plan%202013-2023.pdf
Delivery Program	24/06/2013	http://www.guyra.nsw.gov.au/images/documents/guyra/IPR/Updated%20for%20SRV/IPR%20Delivery%20Plan%20Document%202013-2017%20-%20SRV%20Version.pdf
Operational Plan	24/06/2013	http://guyra.local-e.nsw.gov.au/images/documents/guyra/IPR/Operational%20Plan%202013-2014.pdf
Workforce Plan	24/06/2013	http://guyra.local-e.nsw.gov.au/images/documents/guyra/IPR/Workforce%20plan%202013-2023.pdf
Long Term Financial Plan	24/02/2014	http://www.guyra.nsw.gov.au/images/documents/guyra/IPR/Updated%20for%20SRV/Long%20Term%20Financial%20Plan%202013-2023%20-%20as%20reviewed%20for%20the%20Special%20Rate%20Variation.pdf
Asset Management Plan	24/02/2014	http://www.guyra.nsw.gov.au/images/documents/guyra/IPR/Updated%20for%20SRV/Asset%20Management.pdf

The Guyra community was consulted during the development of these plans and their ideas, needs, suggestions, and comments were used to develop and revisit the high level 10 year objectives. However in preparation of the Resourcing Strategy it has been identified that Council has an annual shortfall in general fund asset renewal expenditure, of $2.7m annually. This work demonstrated there was a continuing need to consider community needs in relation to service levels the Council could afford and the community's willingness and capacity to pay.

The asset management strategy that was exhibited and used in the community engagement identified that a key issue facing Council is the management of ageing assets in need of renewal and replacement. Council infrastructure, particularly council roads present particular challenges and present the major financial risk facing Council and the community. The 2013 report on Councils financial capability prepared by NSW Treasury Corporation noted that Council faced 3 specific risks:

1. High reliance of grant funding resulting in limited fiscal flexibility
2. Continued deterioration of infrastructure
3. An ageing population with a marginal forecast decline in population.

The asset management strategy and community engagement over the past 12 months reflects Council's determination to live within its means whilst engaging the community on affordable levels of service.

Council in 2009/10 received a special rate variation of 8.43% (including 3.5% rate pegging). This special rate variation equates to approximately $140,000 per year for Council to provide ongoing services to our community. The special rate variation was approved for a period of 5 years and expires in June 2014. Council believes that in order to maintain our assets and provide a reasonable level of service it will need to retain this additional rates base. Council has therefore resolved to apply for this variation to remain permanently. To meet the needs of our communities, now and into the future, Council has engaged with the community on an agreed way forward which includes a 2 part strategy to balance revenues and expenditures in the long term by rebalancing service levels to affordable levels. The first stage has received some community support as detailed in the community engagement strategy for the special rate variation.

Stage 1 – Continuation of the current special rate variation by application to IPART in 2014.
Stage 2 – Ongoing engagement with the community throughout 2014 to balance long term revenues and service levels. This means some combination of service reduction, increased revenues and improved efficiency.

This application is only for stage 1.

The results of the community survey indicate that 79% of respondents support the continuation of the current Special Rate Variation, full survey results are available from www.myguyra.com/srv (Appendix 2.1).

In November 2013 Council commenced implementing a community engagement strategy regarding service levels, the proposed continuation of the SRV and the community's willingness and capacity to continue paying an increase in rates. In addition to providing information in a variety of formats in public meetings, targeted stakeholder meetings, through the media, by letter, by email, and a survey which included the following questions were widely distributed:

- Please rate the importance of each of Council current services.
- What is your level of understanding of the proposed Special Rate Variation?
- Would you be prepared to continue the current rate variation to maintain current service levels?
- Would you be prepared to have rates reduced by the amount of the current rate variation and have service levels reduced accordingly?
- Would you be prepared to pay higher rates to renew roads and other community infrastructure? This option would involve further consultation throughout 2014/2015.

A Community Engagement Strategy providing details and key dates of community consultation (Appedix 2) details the specific actions planned for the Special Rate Variation.

An extensive document has been prepared explaining the results of Council's community engagement process, the Summary of Results of the Engagement Plan (Appendix 2.3) and Summary of Results of the Community Survey (Appendix 2.2) these documents are also available to the public via www.myguyra.com

3 ASSESSMENT CRITERION 1: NEED FOR THE VARIATION

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

The need is expressed in the Asset Management Strategy that was exhibited that indicated the need to continue the current SRV and commence ongoing consultation with the community on affordable service levels and risks balanced to the revenues set in the long term financial plan to move to a financially sustainable position over a 10 year period.

Guyra Shire Council (GSC) is a small rural council with a population of 4,397 (2011 Census) and a small rate base which generates $2,457,000 (12/13 Audited results) rateable income from a total actual income of $12,608,000.00 in 2012/13. Council is highly dependent on grant funding $4,905,000 (12/13 Audited results) for operational expenses to meet the community's expected levels of service.

Council is of the opinion that continuation of the current SRV is critical to maintaining GSC's sustainability in the short term, whilst meeting the community's expectations on service levels. A decrease in Council's revenue of approximately $140,000 per year will result in Council not having sufficient funds for the ongoing maintenance and upgrades to community assets. Service levels will decrease accordingly resulting in a decline in the quality and condition of roads, recreational facilities, and stormwater drains.

Council's Long Term Financial Plan (LTFP) highlights that Council will run very tight budgets leading to operational deficits commencing in 2019/20 and continuing to deteriorate from then. Current budget modelling over the period of the LTFP combined with Council's Asset Management Plans (AMPs) details average annual shortfalls in asset maintenance of 42% or almost half of required maintenance which further compounds Council's infrastructure backlog calculated to be 7%. Council needs to improve its ratio by 93%.

The NSW Treasury Corporation (TCORP), as part of the current review into Local Government, has assessed GSC as having a **Moderate** financial sustainability rating with a **Negative** outlook. The negative outlook is a sign of a general weakening in performance and sustainability of Council. TCORP indicates that councils with such a rating need to address areas of poor performance in order to avoid becoming steadily more unsustainable.

3.1 COMMUNITY NEEDS

Background

Following the 2012 Council election, Council reviewed its full suite of IP&R documents, to ensure the needs and desires of the community were representative. The community were engaged to assist with the development of the documents through an extensive community consultation process. During this process, Council developed an approach of ongoing collaboration and consultation to ensure transparency and accountability for both Council and the community. This included the development of an online IP&R 'portal', myguyra.com. This website allows the community ongoing involvement and collaboration in the development of plans and reporting of plans so that their needs and desires are considered.

During this process the community identified 16 areas of particular interest, or concern, these have been used in the Community Strategic Plan as 'priorities'. These priorities, in no particular order, are:

- Our Youth - Provide services for our youth
- Our Ageing & Disability - Provide services and access to elderly residents and persons with disability
- Our Community - Provide services to enhance learning, build relationships, and encourage social events to cater to our community
- Our Wellbeing - Ensure the health, safety, and wellbeing of our community
- Our Planning - Plan for the needs of the Shire through sustainable design
- Our Community Facilities - Provide and maintain fully equipped community facilities
- Our Transport & Access - Provide infrastructure for effective transport and access
- Our Utilities - Provide water and sewer infrastructure
- Our Natural Attractions - Protect and promote our natural attractions
- Our Sustainability - Ensure environmental sustainability through improved practices
- Our Waste - Encourage effective waste management practices
- Our Climate & Natural Resources - Contribute to the protection of the climate and natural resources
- Our Identity - Promote the identity of the Guyra Shire Council and the Guyra Shire Community
- Our Operations - Ensure efficiency and innovation in all practices undertaken by Council
- Our Voice - Provide enhanced engagement and communication with the community
- Our Economic Growth - Develop and sustain the economic growth of the Shire

From this plan Council developed a set of integrated plans that show how Council will achieve the goals of the Community Strategy Plan, and the resources required to fulfil the community's needs and desires.

In preparing and planning for the future, Council has identified a shortfall in general fund asset renewal and maintenance expenditure, amounting to $1.683m annually. This shortfall continues to add each year to the current asset back log to bring up to a satisfactory standard currently estimated to be $18.526m. Basically, there isn't enough money available in Council's budget for the maintenance and upgrade of roads, bridges, assets, and other Council facilities (like community buildings, parks, and public reserves). This message was expressed in the previous resourcing strategy and this application reflects Councils ongoing engagement with the community. The supporting data, whilst continually improving has not and will not change the key message that Council needs to work with the community to determine affordable levels of service.

Community Need Expressed During the SRV Engagement Phase

Community surveys and 2 community workshops, a stakeholder/reference group meeting and a public forum were held to determine community need. While playgrounds, sporting facilities, and the library received a high satisfaction score, the respondents also identified them as being among those services of lowest importance. Other Council services deemed to

be of low importance included town beatification, street-scaping, cemeteries, and animal control.
Areas identified as having highest importance, with the average score determining these services as 'essential,' were sealed and unsealed road maintenance, bridges, water, sewer, and waste collection and disposal. These essential services are those that represent the greatest financial risk to Council and this is detailed in the asset management strategy that are balanced to the long term financial plan. (see Asset Management Strategy Link and LTFP Link)

The expiry of the current special rate variation will result in a further decrease to Council's revenue. The additional funds have significantly assisted Council in providing the required maintenance and upgrades to roads, drainage, and village plans.

If the application for retention of the current SRV is not accepted Council will have to review its Integrated Plans to reflect a reduction in annual income of approximately $140,000. Projects that will be effected, as identified in the revised Delivery Program 2013-2023 adopted on 24 February, 2014, are:

2015	Bitumen Resurfacing	Sections of Tenterden Road, Wandsworth Road, Tubbamurra Road
2016	Bitumen Resurfacing	Sections of Wards Mistake Road, New Valley Road, Howell Road
2017	Bitumen Resurfacing	Sections of Tenterden Road, Tubbamurra Road, Wandsworth Road

2015-2017	Rural Drainage Maintenance	Proposed for longitudinal drainage to improve drainage and reduce moisture saturation leading to pavement failure.

2015-2017	Village Plans	$10,000 grant allocated to priority projects identified by the community in each of Ben Lomond, Ebor, and Tingha.

Consultation with the community and feedback provided from residents and ratepayers indicate that the community would like to retain current levels of service and understand that income must be maintained for this to occur, 79% of respondents to Council's survey indicated that they would be prepared to continue the current rate variation to maintain current service levels. This is detailed in the Appendix 2.2 – Community Survey Summary of Results.

Council's Delivery Program details that the funds generated by the retention of the Special Rate Variation will be utilised on a number of road maintenance projects throughout the Shire. Projects include bitumen resurfacing to sections of Tenterden Road, Wandsworth Road, Tubbamurra Road, Wards Mistake Road, New Valley Road and Howell Road. The maintenance of road infrastructure is of particular importance to our rural community, with 92.48% of respondents to Council's Survey rating sealed road maintenance as very important or essential and 83.34% of respondents rating unsealed road maintenance as very important or essential.

Council is continually investigating options aimed at finding efficiencies in operations to improve Council's sustainability. GSC operates shared services with Armidale Dumaresq Council (ADC) and ongoing involvement with other councils in Regional Procurement and waste management have realised efficiencies and savings on Council operations. GSC's per capita expenditure on Governance and Administration Expenditure for the 2011-12 was $212.41 compared to DLG Group 9 average of $ 757.72. Whilst Armidale Dumaresq Councils expenditure was $20.89 compared to their DLG Group average of $264.53 (Table 9: Per Capita comparative information for Guyra Shire Council, DLG Group 9 and neighbouring New England Councils).

If this application for special rates variation is successful, there will still be a need for Council to engage in future discussions with the community on service levels and income, to realise quantifiable improvement on the infrastructure backlog and annual shortfall in spending on asset maintenance. Council has identified this requirement with the community.

3.2 ALTERNATIVE FUNDING OPTIONS

The asset management strategy dashboards used to present to the community identified the service level and risk options and how these risks could be managed. The resourcing strategy provides an emphasis on ensuring value for money in the ongoing community engagement.

a. Plan, Consult, Inform and Engage.
    i. Plan scenarios for asset renewal guided by the long term financial plan integrated with the asset management and risk management plan.
    ii. Continue the current community consultation and engagement program during 2014 to provide an input to Councils determination on the service levels and level of rates that will allow Council to move to a financially sustainable position over a 10 year period.
    iii. Communicate risks and risk management strategies to the community. This is supported by the communication and engagement strategy that shows what Guyra Council can and can't afford to deliver with current levels of funding and scenarios for rates increases.
    iv. Improve asset and risk management to very high levels very quickly.
b. Implement
    i. Decide on the best balance of rates and services that will move Council to a sustainable position, update the resourcing strategy as needed and implement.
    ii. Implement the program of works in the asset management plans to manage risk, ensure value management on expenditure and manage scenarios for rebalancing service levels.
c. Review and Report
    i. Establish clear governance and reporting processes to internal and external stakeholders.
    ii. Implement ongoing communication and engagement on affordable service levels.
    iii. Annual reviews and reporting in the annual reports as per the IPR processes.

Council is continually investigating funding options and additional revenue streams to improve its sustainability whilst delivering the levels of services expected by the community. Council actively pursues all grant funding opportunities as evidenced by 2012/13 grant income being nearly $2.6 million more than the rate income. A degree of caution is required to ensure that additional infrastructure maintenance demands created by the construction of new infrastructure do not add to Council's infrastructure maintenance backlog in the long term.

Council has implemented a number of cost reduction strategies by moving towards user pay models to generate additional income where possible. In July 2010 Council implemented a sporting club agreement that imposes an annual fee on all sports clubs for the use of sporting and recreation facilities in the shire. The income generated by the fee is used for the ongoing maintenance of the facilities. Council installed a user pay truck wash facility when replacing the existing wash-down area.

Council annually reviews the fees and charges that it sets for the provision of services to the community, traditionally the fees and charges have increased in line with CPI.

Under the stewardship of a newly appointed General Manager, Council is undertaking a number of strategic reviews aimed at finding efficiencies in operation and additional revenue streams. Reviews being undertaken are:-

- Council provision of Aged Care Services
- Council provision of Childcare Services
- Council organisation structure
- Council assets and operational requirements

3.3 STATE OF FINANCIAL SUSTAINABILITY

NSW TREASURY CORPORATION

Council's current financial sustainability rating as determined by NSW Treasury Corp in March 2013 was moderate with a negative outlook.

> **Moderate** - A local government with an adequate capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term. While it has some record of reporting minor to moderate operating deficits the local government may also have recently reported a significant operating deficit. It is likely able to address its operating deficits, manage unforseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments. The expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered. Its capacity to manage core business risks is moderate.
> **Negative** – As a result of a foreseeable event or circumstance occurring, There is potential for a deterioration in the Local Governments capacity to meet its financial commitments (short and/or long term) and resulting change in its rating. However it does not necessarily indicate that a rating change may be forthcoming.

A key issue facing Council is the management of ageing assets in need of renewal and replacement. Council infrastructure, particularly council roads present particular challenges and present the major financial risk facing Council and the community. The 2013 report on Councils financial capability prepared by NSW Treasury Corporation noted that Council faced 3 specific risks:

1. High reliance of grant funding resulting in limited fiscal flexibility
2. Continued deterioration of infrastructure
3. An ageing population with a marginal forecast decline in population.

The FSR focuses on a Council's capacity to meet its financial commitments in the short, medium and long term. The Outlook focuses on the potential movement in a local government's FSR in the short term, and differentiates a local government's rating within a FSR category. In TCorp's view, the short term is the next three years, medium term is the next three to five years and long term is a five to ten year horizon.

Whilst the FSR primarily looks at historical performance, TCorp has also assessed each Council in terms of an Outlook that seeks to provide an indication of any potential future movement in the FSR in the short term (up to three years), based on currently known events, existing trends, and/or financial forecasts.

OPERATING RESULT

Council in the long term should run a balanced or surplus operating result on average. For the past several years Council's operating result has fluctuated. However this result is Council's consolidated financial position for all business units and funds.

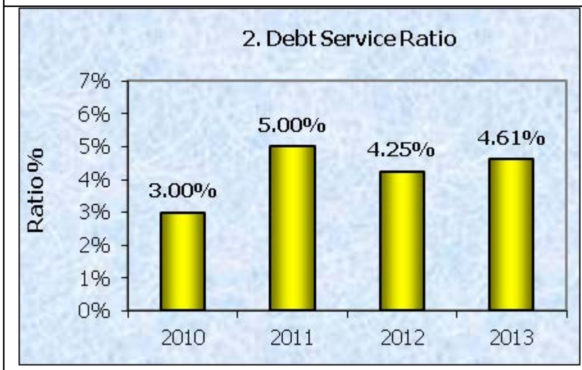
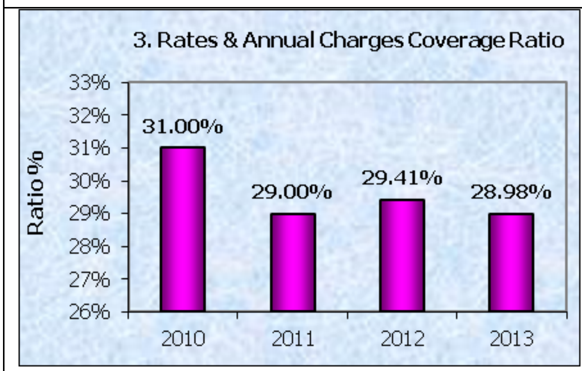
General Fund operations are the main part of Council's Road, Recreation, Environmental and Social services. Operating costs in this fund have been on average 3% greater than the published CPI and is subjected to regulatory pricing on how much revenues can be increased. While Council has been able to contain operating costs the depreciation expense for assets has been increasing significantly and is the main contributor to the operating deficit. What this means is that because Council has been running large operating deficits after depreciation it consequently has not been renewing the public infrastructure at the required rate to sustain the established service level.

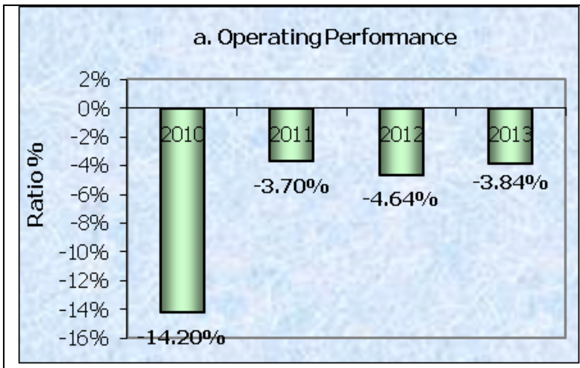
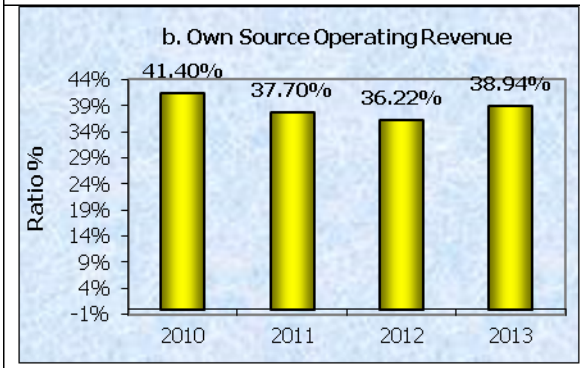
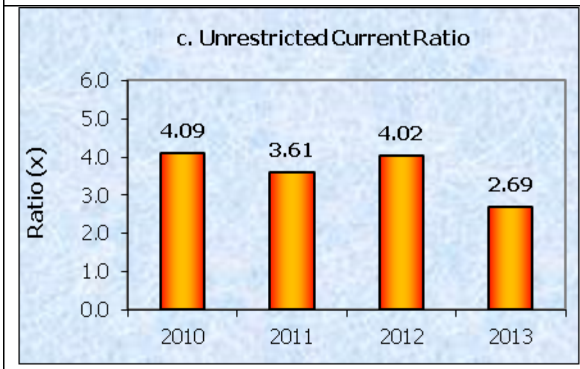
Local Government as a sector has seen increased community demand and a shift in the type of services provided between levels of government that has seen Councils providing many more services than what the sector provided in the 1960s and 1970s. In the past 10 years Guyra Shire Council has seen a 5% per annum increase in net costs for roads, recreation and drainage but 12% per annum increase for social and environmental programs. This is not sustainable and the Delivery Program is carefully considered with respect to Council's Resourcing.

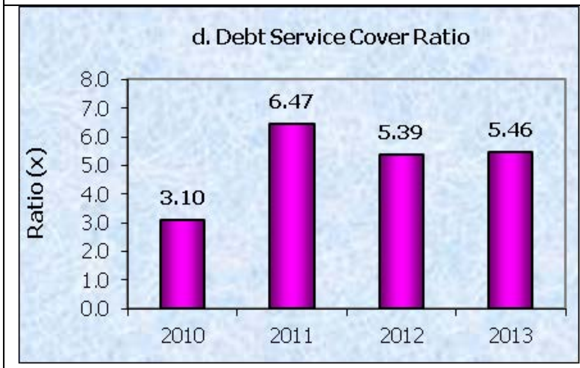
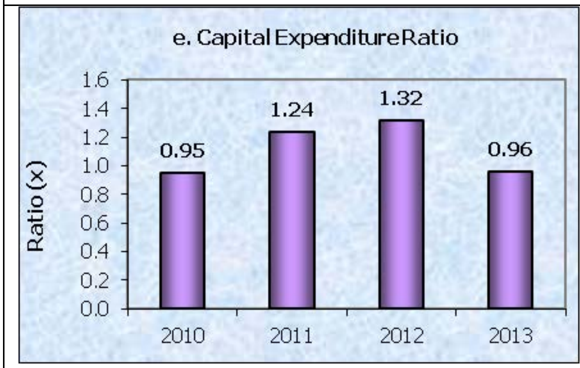
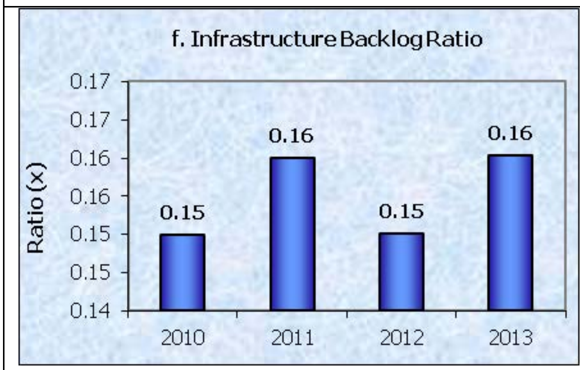
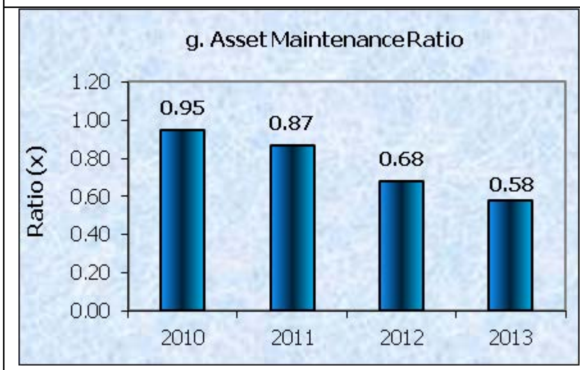
The current situation of operating deficits, while recognizing an asset backlog of 7% of the total asset base or in dollar terms $18.526 million is not sustainable.

> *A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community.*
> *(TCorp Report on Financial Sustainability 2013)*

Council's current allowable income is $3.179 mill so it is important that Council does not add to the asset back log by underfunding asset renewals which has been the outcome to date.

Performance Indicator	Purpose of the Ratio	Commentary
	To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.	**2012/13 Ratio 2.69 : 1** Councils unrestricted ratio remains relatively sound due to 40% of the current liabilities being excluded from the ratio calculation because they are not expected to be settled within the twelve months following the reporting period.
	To assess the impact of loan principal & interest repayments on the discretionary revenue of council.	**2012/13 Ratio 4.61%** Council has maintained a conservative level of Borrowing due to the need to finance future capital works in 2013-2014 Debt service Ratios up to 10% is deemed to be financially responsible.
Performance Indicator	**Purpose of the Ratio**	**Commentary**
	To assess the degree of Council's dependence upon revenue from rates and annual charges and to assess the security of Council's income.	**2012/13 Ratio 28.98%** Due to 70% of the annual revenue subject to variation due to government policy and user charges, council continues to strive for new revenue sources and operational productivity improvements in order to maintain existing service levels.

	This ratio measures Council's achievement of containing operating expenditure within operating revenue.	**2012/13 Ratio -3.84%** The ratio indicates the extent to which operating income is sufficient or insufficient to meet the cost of services. Council should target between positive 0 and 10%. It is important to 12ecognize this measure excludes capital grants and contributions, it is focused on operating sources of income.
	This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants & contributions.	**2012/13 Ratio 38.94%** The higher this ratio the stronger the Council's financial flexibility. The minimum target Council should achieve is 60% in order to be financially sound.
	To assess the adequacy of unrestricted working capital and Council's ability to meet short term obligations as they fall due.	**2012/13 Ratio 2.55** Councils unrestricted ratio remains relatively sound due to 40% of the current liabilities being excluded from the ratio calculation because they are not expected to be settled within the twelve months following the reporting period.

Performance Indicator	Purpose of the Ratio	Commentary
	This ratio measures the availability of operating cash to service debt including interest, principal and lease payments	**2012/13 Ratio 5.46** This ratio is different to the Debt Service Ratio in that it is loan interest principal and lease repayments as a percentage of the operating result before Interest income and depreciation. This indicates the additional amount of debt that a council could take on. A bench mark of > 2 is deemed acceptable.
	This ratio assesses the extent to which a Council is expanding its asset base with capital expenditure (on new assets, replacement & renewal of existing assets).	**2012/13 Ratio 0.96** Where a Council has an asset back log and/or the asset long term renewal ratio is less than 1, then Council should not be expanding its current asset base as it is not maintain existing assets. This indicator should be less than 0 where asset renewals and backlogs are under control.
	This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.	**2012/13 Ratio 0.16** While each asset class varies in its condition between poor and good, when considered across all assets under management less than 16% are needing to be renewed as they are below a satisfactory condition standard.
	Compares actual vs. required annual asset maintenance. A ratio of > 1.0x indicates enough has been spent to stop the Infrastructure Backlog from growing.	**2012/13 Ratio 0.58** The results of this ratio indicate that Council is under allocating sufficient expenditure to maintenance of assets by 42%. Council should be maintaining a long term level average of 1.

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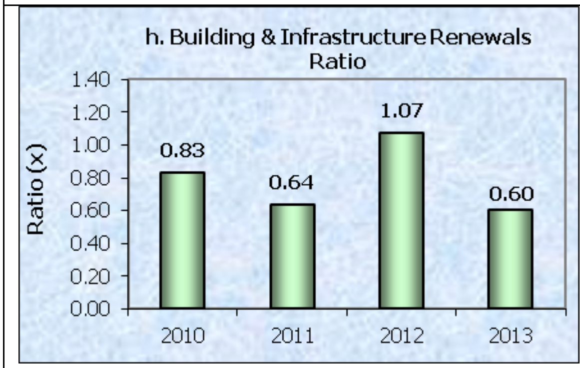
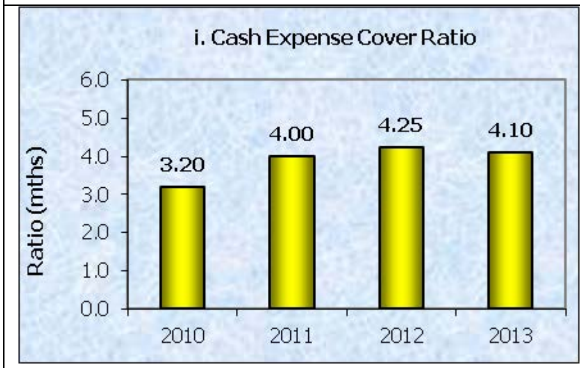
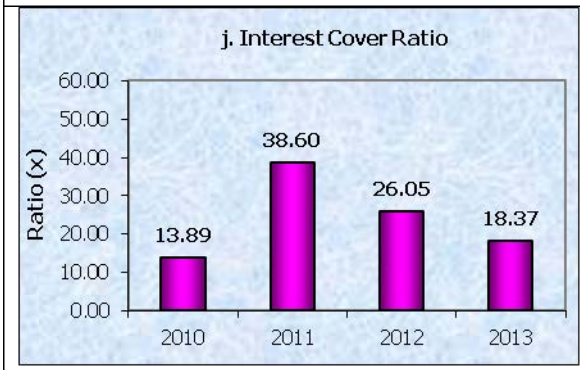
<tr><th>Performance Indicator</th><th>Purpose of the Ratio</th><th>Commentary</th></tr>
<tr><td>
</td><td>To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.</td><td>2012/13 Ratio 0.60

Asset renewal represents the replacement or refurbishment of existing assets to an equivalent capacity or performance as opposed to the acquisition of new assets. To maintain the current Infrastructure Council over the long term needs to maintain a long term ratio average of 1</td></tr>
<tr><td>
</td><td>This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.</td><td>2012/13 Ratio 4.1 mths

Minimum Bench mark for this indicator is 3x. Council's current liquidity is sound.</td></tr>
<tr><td>
</td><td>This ratio indicates the extent to which a Council can service (thru operating cash) its interest bearing debt & take on additional borrowings.</td><td>2012/13 Ratio 18.37

This ratio is different to the Debt Service Ratio in that it is loan interest repayments as a percentage of the operating result before Interest income and depreciation. This indicates the additional amount of debt that a council could take on. A bench mark of > 4 is deemed acceptable.</td></tr>
</table>

Council in most indicators is sound however in the area of asset renewals and operating performance needs to be improved. Council is not currently allocating sufficient funds to capital works at a rate that is sufficient to meet the wear and tear of the asset. This is reflected in the operating result where; as a minimum council should achieve a balanced result after depreciation.

1.1. Cash and Investments

Following at the end of the GFC Council had to write down the value of its investments. To date the majority has been recovered and following the result of a Class action against the promoters of the Investment Securities to Councils and Government more than 50% been recovered with the remaining amounts being subject to a second class action. The losses incurred in 2008 will be contained to Water and Sewer funds which have absorbed the impact. Council has an approved Investment Policy in order to undertake its investment of money in accordance with (and to comply with) Section 625 of the Local Government Act and S212 of the LG (General) Regulation 2005. Investments are placed and managed in accordance with the Policy and having particular regard to authorised investments prescribed under the Ministerial Local Government Investment Order. Council maintains its investment Policy in compliance with the Act and ensures that it or its representatives exercise care, diligence and skill that a prudent person would exercise in investing Council funds.

Council amended its policy following revisions to the Ministerial Local Government Investment Order arising from the Cole Inquiry recommendations. Certain investments that Council holds are no longer prescribed (eg. managed funds, CDOs, and equity linked notes), however several have been retained under grandfathering provisions of the Order. These will be disposed of when most financially advantageous to Council. While the community attribute many of the Councils current financial sustainability issues it needs to be recognized that investments are not a source of income and if operations are depended upon the interest generated to fund services then the council introduces a new range of financial sustainability risks.

1.2. Loans and interest bearing Liabilities.

At the 30 June 2013, Council’s outstanding debts from loans were $1.245 Million. During recent years, Council undertook subdivision works on its own land funded from loans totaling $1.6 Million. Sales of this subdivision are included in the plan. Council has also forecasted to borrow in June 2014 $2 Mill to reconstruct portions of the Guyra/Ebor Road.

1.1. Assets and Infrastructure.

Council’s non current assets are continually revalued (over a 5 year period) in accordance with the fair valuation policy as mandated by the Division of Local Government.

At balance date, the following classes of I,PP&E were stated at their Fair Value;

- Investment Properties
- Water and Sewerage Network (External Valuation)
- Operational Land (External Valuation)
- Buildings – Specialised/Non Specialised(External Valuation)
- Plant and Equipment(as approximated by depreciated historical cost)
- Roads Assets incl. roads, bridges & footpaths (Internal Valuation)
- Drainage Assets (Internal Valuation)
- Bulk Earthworks (Internal Valuation)
- Community Land (External Valuation)
- Land Improvements (as approximated by depreciated historical cost)
- Other Structures (as approximated by depreciated historical cost)
- Other Assets (as approximated by depreciated historical cost)

Depreciation on Council's infrastructure, property, plant and equipment assets is calculated using the straight line method in order to allocate an assets cost (net of residual values) over its estimated useful life. Land is not depreciated.

Does the proposed special variation require you to do a capital expenditure review in accordance with DLG Circular to Councils, Circular No 10-34 dated 20 December 2010? Yes ☐ No ☒

If *Yes*, has a review been done and submitted to DLG? Yes ☐ No ☐

As detailed in Council's revised Delivery Program, Council has indicted an intention to commence two major projects, these being the rehabilitation of MR 135 and construction of a new Aged Care Centre in Guyra. Councils LTFP outlines the provisions council has allowed to facilitate these two projects. Council is currently in the process of completing a Capital Expenditure Review for these projects.

4 ASSESSMENT CRITERION 2: COMMUNITY AWARENESS AND ENGAGEMENT

4.1 THE CONSULTATION STRATEGY

Council employed a variety of consultation methods and techniques to reach the greatest proportion of the population possible. The full community engagement strategy is available on www.myguyra,com/srv. This strategy was developed with the goal of ensuring all members of the community had an opportunity to be informed and engaged in the process. A significant aspect of this consultation was the inclusion of an online Special Rate Variation portal on Council's community engagement site **www.myguyra.com**. This site included information for the community to peruse, opportunities for contribution and comment, and a comprehensive survey to evaluate the needs and desires of our community.

For a comprehensive report on the methods of community consultation and engagement, and the results of each technique see Appendix 2.3 or www.myguyra.com/srv

4.2 ALTERNATIVES TO THE SPECIAL VARIATION

To meet the needs of our communities, now and into the future, Council has engaged with the community on an agreed way forward which includes a 2 part strategy to balance revenues and expenditures in the long term by rebalancing service levels to affordable levels. The first stage has received some community support as detailed in the community engagement strategy for the special rate variation.

Stage 1 – Continuation of the current special rate variation by application to IPART in 2014. Council has consulted with the community on 2 scenarios.
Funding scenario 1 is based on the discontinuation of the current rate variation. This will stop the levy for road and bridge maintenance which will reduce the revenue by $140k. Under this

scenario Council will not be able to maintain the current levels of service and the condition of Council's infrastructure assets will deteriorate over the next 10 years.
Funding scenario 2 is based on the current rate variation continuing. With the current levy roads & bridges maintenance and renewal are still underfunded by $200k. Reserves run out in 3 years. With current levels of funding condition of Council's roads are still expected to deteriorate over the next 10 years. This funding scenario seeks to maintain the existing rate variation permanently, whilst Council continues to consult with the community on balancing service levels and risks to achieve financial sustainability within the next 10 years.
These scenarios are set out in the extracts from Council's asset management strategy dashboards (Appendix 4.1, 4.2, 4.3, and 4.4) that provide a summary of this asset management strategy and supporting asset management plans. These strategy dashboards have been on public exhibition and used in public meetings for a period of over 2 months during December 2013 and January / February 2014.

Stage 2 – Ongoing engagement with the community throughout 2014 to balance long term revenues and service levels. This means some combination of service reduction, increased revenues and improved efficiency.

As mentioned earlier, Council has plans to undertake additional borrowing to commence two major capital expenditure projects, the construction of a new aged care facility and the rehabilitation of main road 135. The two projects which have extensive community support, will exhaust Council's capacity to finance additional maintenance programs through borrowing.

The LTFP and suite of IPR programs highlight Council's intent to proceed with the two major capital expenditure projects, however Council is yet to progress to the stage of awarding contracts to commence works. The projects are being considered in a review being conducted by Council's new General Manager, recommendations stemming from the review and any subsequent Council determinations would require a further review of Councils suite of IPR documents and extensive community consultation given the political capital invested in the projects.

In consulting with our community, the alternatives considered by Council and the community focused upon reviewing service levels and increasing revenue.

Service levels – In discussions with the community it became clear that the community did not want a reduction in service levels. As evidenced by the survey results with 79% of respondents indicating that they would not be prepared to have rates reduced by the amount of the current variation and have service levels reduced accordingly see (Appendix 2.2).

It is clear from comments received during the community engagement process and from some comments circulating in different media, that the community would like further consultation should Council look to increase rates or make adjustments to service levels in the future to improve sustainability.

Comments received from survey:-

- Not willing to reduce service from one area to continue service levels of another, further public consultation with the community would need to be carried out to confirm service levels.

- Guyra Council does not provide luxuries or discretionary services. Libraries, preschools and swimming pools are essential and accordingly I do not support any decrease in services.
- All existing service levels need to be maintained and increase where possible for the shire and the communities within it to grow and prosper.

In an Article from 13 February 2014, The Land newspaper (Appendix 5.7) [redacted] from [redacted] Guyra, Indictated that it was absurd that GSC was applying for a permanent rate variation. However he went on to say that "it was vital that Council use a proportion of the extra rates on the rural road network."

Increasing revenue in other areas – Council pursues grant opportunities and actively lobbies other tiers of government to increase funding provided to Local Government. Projects included in the current suite of IPR Programs and LTFP will exhaust Council's ability to borrow additional funds in line with local government standards. A review of Council assets with regard to operational requirements is being undertaken, with the objective of identifying surplus assets not required for the provision of core services. Once identified, surplus assets will be investigated for sales potential.

The success of Council's application to have the current expiring special rate variation continue on a permanent basis, will afford Council the opportunity to meet the communities expectation to maintain current levels of service and to engage the community in a further conversation around service levels, council revenue and sustainability into the future.

4.3 FEEDBACK FROM THE COMMUNITY CONSULTATIONS

The stakeholder / reference group meeting, held on 18 December 2013, was well attended with approximately 40 invited guests attending the meeting. The targeted group comprised of local business owners, agricultural producers, representatives from Community groups, Churches, Not for Profit organisations, Schools, other Community Stakeholders and residents.

The results of the community survey are that:

1. A total of 79% or respondents support the continuation of the SRV
2. 29% do not support the continuation of the SRV
3. 55% of respondents said that they would be willing to pay more subject to further consultation. This is planned in stage 2.

Concerns raised by the group included:-

- Mismanagement of Council's Funds
- Inefficiences in Council Operations
- Inequality between rate catagories
- Disparity between urban and rural service levels
- Core services of Council

The community want to ensure that Council provides a sustainable, effective solution. They would like to see a more equitable distribution of grant funding that provides essential services like roads.

Participants would be satisfied if Council decreased services in some areas like animal control, preschool, aged care, and the library; however the group could not reach consensus on any particular area that could be reduced. Council is constantly faced with conflicting representations from the community about service levels and attempts to address everyone's needs and desires and has to perform a balancing act to ensure the community is serviced appropriately.

The public forum held on 18 January, 2014, raised similar issues and concerns from the community.

A full summary of Council's engagement with the community is available in Appendix 2.3 or online at www.myguyra.com/srv

4.4 CONSIDERING THE IMPACT ON RATEPAYERS

Despite the willingness by the community to continue the current SRV, Council, in its concern for impact on community will continue to engage during 2014 before deciding on whether to apply to increase the current level of rates.

Councils application is for the permanent retention of the current expiring Special Rate Variation, as such the impact to ratepayers in terms of the increase in rates from 2013-14 to 2014-15 will be equivalent to the rate peg of 2.3 % as set by IPART for the 2014-15 rating period.

The below table details the impact on ratepayers (by Rate Category) based on each of the scenarios that formed the basis of Council's engagement with the community and Council's consideration.
Scenario 1 – Increase of 2.3% only, which is the approved rate pegging increase for the 2014-15 rating year. The current Special Rate Variation is removed and new land valuations apply.
Scenario 2 - Increase of 2.3%, which is the approved rate pegging increase for the 2014-15 rating year, applied to the existing Special Rate Variation and the new land valuations.

Rate Category	Current Average Rate in 2013-2014	Scenario 1 $ Difference in 2014-2015	Scenario 1 % Difference in 2014-2015	Scenario 2 $ Difference in 2014-2015	Scenario 2 % Difference in 2014-2015
Residential - Guyra	$467	-$14	-2.98%	$11	2.36%
Residential - Tingha	$467	-$13	-2.81%	$12	2.66%
Residential - Village	$352	-$8	-2.38%	$11	3.12%
Residential - Non Urban	$547	-$38	-6.99%	-$10	-1.74%
Business - Guyra	$794	-$25	-3.16%	$18	2.30%
Business - Tingha	$515	-$16	-3.16%	$12	2.29%
Business - Village	$227	-$7	-3.17%	$5	2.28%
Mining	$577	-$18	-3.16%	$13	2.29%
Farmland	$2,236	-$77	-3.44%	$45	1.99%
Farmland Intensive	$10,746	-$339	-3.16%	$247	2.29%

Table 1: Comparative Rate Category Data - Scenario 1 & 2

The specific impact of the rate change across the different Rate Categories is dependent upon a number of factors, the main one being land valuation. The Valuer General has recently issued new land valuations for the 2014-2015 financial year. These new valuations have been used to calculate the estimated change to the average rates levied for each scenario. Significant variations between Rate Categories are indicative of the recent changes to land valuations.

4.5 CONSIDERING THE COMMUNITY'S CAPACITY AND WILLINGNESS TO PAY

This has been addressed in section 4.4 and council will carefully consider community capacity before deciding on whether rates should increase and if so, by how much.

Council has considered a number of factors in determining the community's capacity and willingness to pay. The Comparative Information on NSW Local Government, measuring local government performance report 2011-12 released by the Division of Local Government details a number of key performance indicators for local government in NSW.

The Division of Local Government has placed Guyra Shire Council in **DLG Group 9**, Council type **Rural**. Group 9 comprises entirely of rural Councils, with the majority of councils being located in western NSW. Walcha Council is the only council situated in the New England Area grouped with Guyra Council.

The New England region is a highly productive agricultural area in addition to comparing Guyra to other Group 9 councils, GSC considered the comparative information of neighbouring councils within New England.

The below table illustrates the difference in population, taxable income, socio economic index rating and average rate categories for Guyra Shire Council, DLG Group 9 and neighbouring New England Councils.

Table 2: Comparative Information on NSW Local Government

Average	DLG Group 9	Guyra	Armidale	Walcha	Uralla	Glen Innes	Inverell
Residential Rate	341.14	409.28	827.01	383.07	473.09	545.63	821.70
Business Rate	670.12	612.24	3046.79	620.25	472.05	1247.45	3009.17
Farmland Rate	2298.92	2103.45	2312.22	3131.75	3404.84	1875.85	2253.56
Mining Rate	34,386.67	600.00	1900.00	333.33	N/A	333.33	N/A
Average Taxable Income	35,220.00	32075.00	38,598.00	31741.00	34090.00	30324.00	32168.00
Population		4543	25270	3122	6260	8965	16614
SEIR		27	103	84	94	20	18

The table highlights that:-

- GSC has the second lowest average residential rate of Councils in the New England region with Walcha having the lowest, GSC's residential rate is higher than the DLG group 9 average.

- GSC has the second lowest average business rate of Councils in the New England region with Uralla having the lowest, GSC's business rate is lower than the DLG Group 9 average.
- GSC has the second lowest average farmland rate of Councils in the New England region with Glen Innes having the lowest, GSC's farmland rate is lower than the DLG Group 9 average.
- GSC has the third lowest average taxable income of Councils in the New England region.
- GSC population is the second lowest population of Councils in the New England region.

5 ASSESSMENT CRITERION 3: IMPACT ON RATEPAYERS

The impact of the current application is minor because it is a continuation of the current level. The risk and service level impacts of continuation of the current levels are substantial and clearly expressed the asset management strategy. The ongoing community engagement in 2014 will reflect Council's determination to live within its means whilst engaging the community on affordable levels of service.

5.1 IMPACT ON RATES

Information has been provided to the community about the impact of the retention of this Special Rate Variation in terms of dollar value and percentage increase (Appendix 2.1).

The table below outlines the current average rate per Rate Category for the 2013-2014 rating year.

Table 3: 2013/14 Current Rate Categories

Current 2013-2014		
Rate Category	Number of Assessments	Average Rate 2014-15
Residential - Guyra	901	$467
Residential - Tingha	278	$467
Residential - Village	125	$352
Residential - Non Urban	170	$547
Business - Guyra	99	$794
Business - Tingha	30	$515
Business - Village	15	$227
Mining	5	$577
Farmland	815	$2,236
Farmland Intensive	1	$10,746

Scenario 1 – Increase of 2.3% only, which is the approved rate pegging increase for the 2014-15 rating year. The current Special Rate Variation is removed and new land valuations apply.

Table 4: 2014/15 Rate Forecast with SRV Removed

2014-2015 Rate Forecast 2.3% Change - Current Special Rate Variation Removed		
Rate Category	Number of Assessments	Average Rate 2014-15
Residential - Guyra	901	$453
Residential - Tingha	277	$454
Residential - Village	124	$344
Residential - Non Urban	177	$509
Business - Guyra	99	$769
Business - Tingha	30	$499
Business - Village	15	$220
Mining	5	$558
Farmland	817	$2,159
Farmland Intensive	1	$10,407

Scenario 2 - Increase of 2.3%, which is the approved rate pegging increase for the 2014-15 rating year, applied to the existing Special Rate Variation and the new land valuations.

Table 5: 2014/15 Rate Forecast with SRV Retained

2014-2015 Rate Forecast 2.3% Change - Current Special Rate Variation Retained		
Rate Category	Number of Assessments	Average Rate 2014-15
Residential - Guyra	901	$478
Residential - Tingha	277	$479
Residential - Village	124	$363
Residential - Non Urban	177	$538
Business - Guyra	99	$812
Business - Tingha	30	$527
Business - Village	15	$232
Mining	5	$590
Farmland	817	$2,280
Farmland Intensive	1	$10,993

The below table details in dollar value the impact on the average rate per rating category under the two scenarios for the 2014-15 rating period.

Scenario 1 figures reflect the expiration of the current Special Rate Variation with new land valuations and the 2014-15 rate peg applied.

Scenario 2 figures reflect a continuation of the expiring Special Rate Variation with new land valuations and the 2014-15 rate peg applied.

Table 6: Comparative Information between Scenario 1&2 - in dollar value

Rate Category	Number of Assessments	Scenario 1 2014-15 average rate	Scenario 2 2014-15 average rate	Impact in dollars on average rate for 2014-15
Residential - Guyra	901	$453	$478	$25
Residential - Tingha	277	$454	$479	$25
Residential - Village	124	$344	$363	$19
Residential - Non Urban	177	$509	$538	$29
Business - Guyra	99	$769	$812	$43
Business - Tingha	30	$499	$527	$28
Business - Village	15	$220	$232	$12
Mining	5	$558	$590	$32
Farmland	817	$2,159	$2,280	$121
Farmland Intensive	1	$10,407	$10,993	$586

Excluding the farmland Intensive rate category which applies solely to the glasshouse operated by the Costa Group, the largest difference in dollar value to the rate category between the two scenarios for the 2014-15 rating period applies to farmland. The difference between the two scenarios of $121.00 equates to a difference in quarterly payments of $30.25 on average.

The table below details the impact to the average rate by rating category from the 2013-14 rating period to the 2014-15 rating period should Councils application to have the expiring SRV continued on a permanent basis.

Rate Category	Current Average Rate in 2013-2014	Scenario 2 $ Difference in 2014-2015	Scenario 2 % Difference in 2014-2015
Residential - Guyra	$467	$11	2.36%
Residential - Tingha	$467	$12	2.66%
Residential - Village	$352	$11	3.12%
Residential - Non Urban	$547	-$10	-1.74%
Business - Guyra	$794	$18	2.30%
Business - Tingha	$515	$12	2.29%
Business - Village	$227	$5	2.28%
Mining	$577	$13	2.29%
Farmland	$2,236	$45	1.99%
Farmland Intensive	$10,746	$247	2.29%

Table 7: Variation between 2013/14 and 2014/15 with SRV retained

5.1.1 MINIMUM RATES

Does the council have minimum rates?

Yes ☐ No ☒

5.2 AFFORDABILITY AND COMMUNITY CAPACITY TO PAY

Council's current SRV is due to expire at the end of the 2013-14 rating period, consultation with the community and feedback provided from residents and ratepayers indicate that the community would like to retain current levels of service and understand that income must be maintained for this to occur, 79% of respondents to Council's survey indicated that they would be prepared to continue the current rate variation to maintain current service levels.

The above table highlights that the highest percentage increase to the average rate per rate category from rating period 2013-14 to 2014-15 is 3.12 % (allowing for the 2014 -15 property valuations) should Council's SRV application be approved.

5.3 OTHER FACTORS IN CONSIDERING REASONABLE IMPACT

Average	DLG Group 9	Guyra	Armidale	Walcha	Uralla	Glen Innes	Inverell
Residential Rate	341.14	409.28	827.01	383.07	473.09	545.63	821.70
Business Rate	670.12	612.24	3046.79	620.25	472.05	1247.45	3009.17
Farmland Rate	2298.92	2103.45	2312.22	3131.75	3404.84	1875.85	2253.56
Mining Rate	34,386.67	600.00	1900.00	333.33	N/A	333.33	N/A
Average Taxable Income	35,220.00	32075.00	38,598.00	31741.00	34090.00	30324.00	32168.00
SEIR		27	103	84	94	20	18

Table 8: 2011-2012 Comparative Information on NSW Local Government

Observations of the comparative information for neighbouring New England Councils and DLG Group 9 Councils highlight that:-

- GSC has the second lowest average residential rate of Councils in the New England region with Walcha having the lowest, GSC's residential rate is higher than the DLG group 9 average.
- GSC has the second lowest average business rate of Councils in the New England region with Uralla having the lowest, GSC's business rate is lower than the DLG Group 9 average.
- GSC has the second lowest average farmland rate of Councils in the New England region with Glen Innes having the lowest, GSC's farmland rate is lower than the DLG Group 9 average.

GSC believe that when the above observations are considered in conjunction with the modest increase to rates generated, should Council's SRV application be approved and the community's clear indication that service levels should be maintained, the impact on the community is reasonable.

Should a ratepayer find that an increase in rates due to a Special Rate Variation or changes in valuation causes them hardship there are a number of mechanism in place to assist. The Valuer General has a process to dispute a valuation and Council's Responsible Accounting Officer Directives and Guidelines SPN (Appendix 6.1) details the provisions of Council's Hardship consideration which also cater for Illness and natural disasters.

5.3.1 ADDRESSING HARDSHIP

Does the council have a Hardship Policy?	Yes ☒ No ☐
If Yes, is it identified in the council's IP&R documents?	Yes ☐ No ☒
Please attach a copy of the Policy and explain who the potential beneficiaries are and how they are addressed.	Responsible Accounting Officer Directives and

	Guidelines Standard Practice Note (Appendix 6.1)
Does the council propose to introduce any measures to limit the impact of the proposed special variation on various groups?	Yes ☐ No ☒

Council does not propose to introduce measures to limit the impact of the proposed special variation on various groups. The impact of the current application is minor because it is a continuation of the current level. The risk and service level impacts of continuation of the current levels are substantial and clearly expressed in the asset management strategy. Ongoing community engagement in 2014 will reflect Council's determination to live within its means whilst engaging the community on affordable levels of service.

The NSW Farmers Federation and representatives of the agricultural sector have commented that they are of the opinion that there is some inequity between the rates paid by rural property owners and residential rates.

Council has indicted to the community that it will embark on an extensive community engagement program in the 2014 calendar year, to discuss Council's sustainability, community expectations, revenue and review operations. Its is envisaged as part of this engagement, reviews into Council's rating structure and rate categories will be undertaken to limit the impact of any additional SRV applications on groups that may be adversely affected.

6 ASSESSMENT CRITERION 4: ASSUMPTIONS IN DELIVERY PROGRAM AND LTFP

The following assumptions, risks and uncertainties have been identified and in reference to the Council's Community Strategic Plan. Uncertainty increases as the financial information presented extends each year from the current financial data.

These forecast financial statements must be read with caution utilising the details of financial assumptions contained in this statement. Financial years 2014/15 to 2019/20 must be read with the understanding that the forecast is based on professional opinion and estimates and that in broad terms the business of the Council should continue in its current form and what has been forecast in the Community Strategic Plan. Uncontrollable external events or change in State and Federal Government policy will significantly affect the forecast.

The most significant risks include unexpected changes to legislation and/ or regulations. It has been assumed that the organisational structure of Guyra Shire Council will remain relatively unchanged for core services with reshaping the organisation to cater for positions associated with the community strategic direction. Council will be impacted by the issues of an aging workforce identified in the workforce plan. Although climate change and its existence and causes are still being debated, no contingency has been applied and therefore associated costs to Council has been assumed will not significantly change over the next 10 years.

1.1. Service Priorities

It is assumed that the community will continue to endorse and demand the current range of services that the Council provides. Community strategic goals are expected to be funded from existing funds where service levels are not affected otherwise new external funding is to be sourced.

Forecast financial reports include increase in Rates and Charges above the rate pegging to match the cost of providing new capital or debt repayments from financing new facilities or services identified in the Community Strategic Plan. It is also expected that management will be able to achieve the necessary cost reduction and productivity changes to services in order to offset each years increase in operating costs above the rate peg.

1.2. Population Growth and Rates Base

While Council has a desired ambition to increase the population of the local government area the assumed population growth has been assumed to be in line with State and National levels. The New England Regional economy is very reliant on the Education and Agricultural sectors. Both sectors are going through a period of change to operations and competiveness. Reduction in labour for these sectors would have a negative impact on the current population level however new opportunities are emerging with an expected expansion of the tomato farm at Guyra.

In the forward assumptions it has been assumed that any negative impacts could be offset by emerging market and where there is population growth then the demand for services and infrastructure would increase offsetting any additional revenues collected.

1.3. Asset Ownership and management

There are no major assets Sales or change in management identified in the asset management plan that will affect the outcome of the financial reports beyond 2014/2015. Councils current asset register is expected to remain stable from Year to Year. Technology and innovation may change future outcomess however significant changes to Councils policy is not anticipated over the life of the Delivery program. Council is however looking to continue to sell blocks at Claret Ash estate to return surplus funds to operations.

1.4. Interest Rates

Where new borrowing costs have been identified a 6% interest rate has been applied in determining repayments. Interest on money invested is estimated at 4.0% pa.

1.5. Funding Sources

It has been assumed that the level of external funds through the current grant allocations will remain consistent over the 10 years and that there is no significant change to government policy to either decrease or increase. Council will continue to actively pursue grant opportunities but due to their high level of uncertainty cannot be included in the financial projections. The exception to this assumption is in the Federal Governments Roads to Recovery Program that expires June 2014. The website indicates an extension of this program at the same funding levels for a further 5 years. This program is included in the projections only for that 5 year period.

Internal funding sources from Rates, Annual Charges and User charges are expected to increase as a minimum in line with a rate peg limit assumed to be between 2.5% and 3% pa. Where new projects or strategic goals have been endorsed by the community in the Strategic plan, Council is looking to fund some of these initiatives by continued productivity improvements, organisation development and / or through the application of a special rate variation. Rate Variations can be made permanent however the strategy in the forward plan is to apply for SRV's for a period of 7 years and therefore are only utilized for defined projects. All SRV's need to be supported by the community and will need to be approved by IPART.

Included in two scenarios is a special rate variation to spend on increased road asset renewals. If the identified Rate Variation application is unsuccessful the identified projects will not be able to commence and the Long Term Financial Plan adjusted to scenario being the reduction of the current status.

1.6. Depreciation and Useful Lives

Other than land, all assets recognised are systematically depreciated over their useful lives in a manner which reflects the consumption of the service potential embodied in those assets.

Depreciation is recognised on a straight-line basis. Depreciation periods for infrastructure assets have been estimated based on the best information available to Council, but appropriate records covering the entire life cycle all of these assets are not available. While care should be exercised when interpreting financial information all asset classes have been subjected to at least one and in some cases 2 revaluation assessments. Each revaluation increases the confidence level of the estimates.

In 2014 Council is implementing an integrated Asset Management system that collects data and accomplishments at the worksite. Over the next 5 years as this data builds up Council will be able to back test many of the assumptions made in depreciation rates and useful lives.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows.

Asset	Useful Life	Asset	Useful Life
Motor Cars - Sedans	5 years	Dams & Reservoirs	100 years
Trucks and Utilities	5-10 years	Water Mains	80 -100 years
Dozers, Graders, Rollers, Tractors, Backhoes, Loaders	10 years	Water Treatment Plant	70 -100 years
Office Equipment	5-20 years	Meters & Plant	10 years
Furniture & Fittings	5-20 years	Sewerage Treatment Plants	50 -100 years
Library Books	5 years	Sewer Mains & Pump Stations	50 -100 years
Buildings - masonry	50 to 100 years	Roads - Unsealed	15 - 70 years
Buildings – other construction	20 to 40 years	- Sealed	20 -120 years
Playground equipment	5 to 15 years	- Concrete	20 - 60 years
Benches, seats, etc	10 to 20 years	Bridges - Timber	20 - 40 years
		- Concrete	20 - 120 years

1.7. Outsourcing and Service Delivery

Where council outsources Physical works and professional services, it is assumed this practice will continue. Council’s resources plan has identified that over the next 10 years a skills shortage may have an effect on service delivery. In this plan it has identified Council may need to use outsourcing options if there are critical skill gaps that cannot be resolved. The financial forecast has assumed that current recruitment patterns will continue and that Council will be able to fill positions.

Council also has a joint venture with Armidale Dumaresq Council that pools 11 corporate services into one shared service structure. While corporate shared services has delivered real productivity gains it has been identified to be expanded into other functions. The current shared services operation is inline with the Local Government Review Panel recommendations and Council see that the current shared services will be transferred to any regional joint organisation that may form.

1.8. Asset Renewal

The forecast expenditure for infrastructure asset renewal is insufficient to maintain the current level of services. The current financial model has not included any provisions to close the infrastructure renewal gap that has been estimated at approximately $18.5 mill as at the 30 June 2013. The asset management strategy aims to define more accurately what asset classes need to be renewed and the amount of expenditure required. The base assumption of the future financial capital costs has not tried to build in a complete renewal of assets. An upper level asset renewal target has been set at 80% where strategic maintenance and service level adjustment may achieve an acceptable balance. However no scenario comes close to this target so a lot more community engagement is required. Following a number of forums and discussion groups it is clear that the community is presented with a complex situation and they are coming to terms with what it actually means. Once a well defined back log has been established it is expected that without increased external funding Council will need to seek a special rate variation.

1.9. Changes to Service levels

No changes to service levels have been identified in the forward projections. It is assumed that any cost savings in service level reduction will be redirected to asset renewals or existing service delivery and where new services come about or Council seeks to increase the service levels that new funding found. Council has identified the need to review and test service level standards with the community over the 2014-2015 financial years.

Planned Operating Income

Rates	Rates are based on an annual increase of 3% rate peg and in Years 1 and 8 an application to the IPART and the Minister for Local Government for a Rate Variation to fund Infrastructure renewals.
Domestic Waste Charges	Annual and user charges have been increased to reflect expected cost increases in providing the service.
User Charges and Fees	User Charges and fees are detailed in Councils 2014/2015 Fees and Charges Schedule included as part of the Operational Plan. Future year's user charges and fees have been increased by an estimated annual CPI increase of 3%. This represents the top of the Reserve Bank's long term target for CPI of 2-3% p.a.
Interest on Investments	An interest rate of 6% p.a. is assumed for interest earned on investments. Interest rates can fluctuate quickly, however a target 6% p.a average rate of return on investment over the life of the plan is considered to be achievable.
Other Revenues	Is expected to increase between 2.5% and 3.5% p.a. over the period of the plan.
Capital and Operating Grants and Contributions	Operational Grants are expected to increase an average of 3% per annum. Capital Grants will fluctuate from year to year but matched by expenditure on the capital project the Grant or contribution is for. Capital Grant Projections has been based on historical trends.

Planned Operating Expenditure

Employee Costs	Employee Costs are expected to Grow at a net rate of 3 %. Employee costs in real terms are expected to increase at 5% per annum which is financially unsustainable in General Fund. Therefore these costs are then discounted by a 2% productivity improvement and lower recruitment rates resulting in a net reduction in total Employee Full Time Equivalents over the term of the plan.
Borrowing Costs	Borrowing Costs have been increased to reflect the additional loan funds for the Kolora Centre and the Guyra/Ebor Road LIRs program.
Materials and Contracts	This has been broadly budgeted at an annual increase of 5% per annum as it is expected that the increases in petrol materials construction equipment and contracts will continue to increase above CPI
Other Operating Expenses	Other operating Expenses have been increased in line with the estimated CPI of 3% with the exception of Electricity and Insurances. Electricity has been increased at an average of 10% per annum and due to the uncertainty of new contracts due in 2014 and Insurances has be increased at 4% per annum in line with historical trends.

Operating Income Assumptions in LTFP

	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	2023 /24
Operating Income										
Rates - Ordinary	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Rates - Special	0%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Rates - Special Variation	8%	0%	10%	10%	0%	0%	0%	0%	0%	0%
Annual Charges	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
User Charges - Specific	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Fees & Charges - Statutory & Regulatory	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Fees & Charges - Other	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Other Revenues	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Operating Grants - General Purpose (Untied)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Operating Grants - Specific Purpose	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Operating Contributions - Specific - Developer Contributions	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Operating Contributions - Specific - Other Contributions	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%

Operating Expenditure Assumptions in LTFP

	2014 /15	2015 /16	2016 /17	2017 /18	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	2023 /24
Operating Expenditure										
Employee Costs - Salaries	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Employee Costs - Casual Wages	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Employee Costs - Other	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Materials & Contracts - Raw Materials & Consumables	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Materials & Contracts - Contracts	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Materials & Contracts - Other	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Materials & Contracts - Capitalised	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Other Expenses - Utilities	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Other Expenses - Other	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%

7 ASSESSMENT CRITERION 5: PRODUCTIVITY IMPROVEMENTS AND COST CONTAINMENT STRATEGIES

Council is working as part of the Northern Group of Councils Workgroup to establish and deliver objectives from the Community Strategic Plan 2013-2023 (CSP) that are common throughout neighbouring Councils or that are not a direct responsibility of Council. This approach will assist Council in providing for the community's needs and desires while not negatively impacting on Council's available resources.

Council's shared services have realised productivity improvements and cost containment, GSC's per capita expenditure on Governance and Adminstration Expenditure for the 2011-12 was $212.41 compared to DLG Group 9 average of $ 757.72. Whilst Armidale Dumaresq Councils expenditure was $20.89 compared to their DLG Group average of $264.53

Council is currently completing a review of its organisational structure and operations under the stewardship of a new General Manager. The review is investigating options to expand the scope of Shared Services to include Engineering, Planning and Environmental services.

Per Capita	DLG Group 9	Guyra	Armidale	Walcha	Uralla	Glen Innes	Inverell
Revenue	4908	2635	1823	4019	2532	2760	2203
Expenses	4667	2565	1830	4748	2623	2738	1899
Governance & Administration Expenditure	757.72	212.41	20.89	637.41	80.19	207.25	398.4
Roads, Bridges & Footpath Expenditure	1605.65	579.57	223.27	2019.86	850.32	608.7	509.63
Metre Road Length	433.31	212.78	41.49	294.20	153.53	129.16	128.9
Infrastructure Backlog ratio	10.43%	15.02 %	3.5 %	9.93 %	5.27 %	14.50 %	20.20 %

Table 9: Per Capita comparative information for Guyra Shire Council, DLG Group 9 and neighbouring New England Councils

Councils asset management strategy is implementing a best value model for expenditure that ensures:

1. Ongoing consultation with the community on affordable service levels and risks balanced to the revenues set in the long term financial plan to move to a financially sustainable position over a 10 year period.
2. Implement a risk management plan to ensure residual risks are managed
3. The delivery program and annual budgets will align with Councils asset management plans and be guided by the following principles:
   a. Resource allocation (capital or maintenance/operating) will consider existing highest residual risk in the risk register
   b. Resource allocation will consider assessed need determined by a gap between the actual service level and set affordable targets in the service plan / asset management plan.
   c. Resource allocation will consider alternative options to minimize life cycle costs and propose the best option.

d. Resource allocation align with the resourcing strategy for long term financial sustainability

8 OTHER INFORMATION

PREVIOUS INSTRUMENTS OF APPROVAL

See Appendix 6.2

REPORTING TO YOUR COMMUNITY

Council will utilise the community collaboration website, www.myguyra.com to report to the community on the Special Rate Variation application and future community engagement on service level adjustments dependent on the result of the application.

Council current provides quarterly reports on the activities contained within its IP&R planning instruments. These reports are publicly available on the Council website and b y request. Council is in the process of developing performance management software that will be used for the ongoing reporting of Council's activities to the community.

The Operational Plan 2014-2015 (under development) and corresponding budget will indicate which specific areas are related to the funding obtained through the Special Rate Variation.

COUNCIL RESOLUTION TO APPLY TO IPART

6.2 Special Rate Variation - Results of Community Engagement *Ref: GINT/2014/00331*

10/14 **Moved Cr Murray** **Seconded Cr Vickery**

(a) That the report on the Integrated Planning and Reporting – Community Engagement on the Special Rate Variation be noted.

(b) That the Delivery Program 2013-2017, Asset Management Plan 2013-2023 and the Long Term Financial Plan 2013-2023 be adopted as a reviewed document.

(c) That Council delegate to the General Manager responsibility to lodge a Special Rate Variation application with IPART, to have Councils expiring Special Rate Variation granted in 2009 extended on a permanent basis commencing the 2014-15 rating period.

The Motion on being put to the vote was CARRIED.

CHECKLIST OF CONTENTS

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

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

CERTIFICATION

APPLICATION FOR A SPECIAL RATE VARIATION
To be completed by General Manager and Responsible Accounting Officer

Name of council: Guyra Shire Council

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

General Manager (name): Mr Peter Stewart

Signature and Date:

24/2/14.

Responsible Accounting Officer (name): Mr Keith Lockyer
Signature and Date:

24/2/14

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