Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

For 2017-18

Issued December 2016

Insert Name of Council: Inverell Shire Council
Date Submitted to IPART:
Council Contact Person: Ken Beddie
Council Contact Phone: 02 67288206
Council Contact Email: ken.beddie@inverell.nsw.gov.au

The Tribunal members for this review are:

Dr Peter J. Boxall AO, Chairman

Ms Catherine Jones

Mr Ed Willett

Inquiries regarding this document should be directed to a staff member:

Derek Francis	(02) 9290 8421
Letitia Watson-Ley	(02) 9290 8402

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box K35, Haymarket Post Shop NSW 1240
Level 16, 2-24 Rawson Place, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

www.ipart.nsw.gov.au

Contents

1 Introduction

IPART will assess each application against the criteria set out in the Office of Local Government's (OLG) *Guidelines for the preparation of an application for a special variation to general income for 2017/2018* (the Guidelines). Councils should refer to these Guidelines before completing this application form.

Each council must complete this Part B application form when applying for a special variation to general income either under section 508(2) or section 508A of the *Local Government Act 1993* (NSW).

In addition, councils must complete the Part B form with the Part A (spreadsheet) form for both section 508(2) or section 508A applications. The Guidelines also require the council to have resolved to apply for a special variation. You must attach a copy of the council's resolution. IPART's assessment of the application cannot commence without it.

If the proposed special variation includes increasing minimum rates above the statutory limit, or is to apply a higher rate of increase to an existing minimum rate than to its other rates, it is not necessary for the council to also complete the separate Minimum Rates application form. However, this must be clearly identified and addressed in the special variation application. In such circumstances, councils are encouraged to discuss their proposed application with IPART as soon as possible.

As outlined in the Guidelines, new councils created in 2016, or councils whose merger proposals are pending due to legal proceedings, will be ineligible for special variations for the 2017-18 rating year.

1.1 Completing the application form

This form is structured to provide guidance on the information we consider is necessary for us to assess a special variation application. To complete the form, the council will need to respond to questions and insert text in the boxed area following each section or sub-section.

The amount of information that a council provides will be a matter of judgement for the council, but it should be sufficient for us to make an evidence-based assessment of the application. Generally, the extent of the evidence should reflect the size of the variation sought. More complex applications or requests for a high cumulative percentage increase should be supported by stronger, more extensive evidence.

Councils may submit additional supporting documents as attachments to the application (refer to section 8). These attachments should be clearly cross-referenced in Part B. We prefer to receive relevant extracts rather than complete publications, unless the complete publication is relevant to the criteria. If you provide complete documents when only an extract is relevant, we may ask you to resubmit the extract only. (You should provide details of how we can access the complete publication should this be necessary.)

We publish videos and fact sheets on how IPART assesses special variations and on the nature of community engagement for special variation applications. These will assist in preparing the application. The latest videos and fact sheets on these topics are available on IPART's website.

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

This application form consists of:

- Section 2 – Preliminaries
- Section 3 – Assessment criterion 1
- Section 4 – Assessment criterion 2
- Section 5 – Assessment criterion 3
- Section 6 – Assessment criterion 4
- Section 7 – Assessment criterion 5
- Section 8 – List of attachments
- Section 9 – Certification.

1.2 Notification and submission of the special variation application

Notification of intention to apply

Councils intending to submit an application under either section 508(2) or section 508A should have notified us of their intention to apply, via the Council Portal, by Friday 16 December 2016.

Any councils that did not notify but intend to apply for a special variation for 2017-18 should contact us as soon as possible.

Online submission of applications

All councils intending to apply for a minimum rate increase must use the Council Portal on IPART's website to register as an applicant council and to submit an application.

You are required to submit the application, via the Council Portal, by **Monday 13 February 2017.**

The User Guide for the Portal will assist you with the registration and online submission process. If you experience difficulties please contact:

- Arsh Suri - Arsh_Suri@ipart.nsw.gov.au or 02 9113 7730
- Himali Ardestani - Himali_Ardestani@ipart.nsw.gov.au or 02 9113 7710.

File size limits apply on the Council Portal to each part of the application. For this Part B application form the limit is 10MB. The limit for supporting documents is 50MB for public documents and 50MB for confidential documents. These file limits should be sufficient for your application. Please contact us if they are not.

We will post all applications (excluding confidential content) on the IPART website. Confidential content may include part of a document that discloses the personal identity or other personal information pertaining to a member of the public or whole documents such as a council working document and/or a document that includes commercial-in-confidence content. Councils should ensure that documents provided to IPART are redacted so that they do not expose confidential content.

Councils should also post their application on their own website for the community to access.

Hardcopy of application

We ask that councils also submit their application to us in hard copy (with a table of contents and appropriate cross referencing to supporting documents) to the following address by **Monday 13 February 2017**:

Local Government Team
The Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240
or
Level 15, 2-24 Rawson Place, Sydney NSW 2000.

2 Preliminaries

2.1 Focus on Integrated Planning and Reporting

Councils must identify the need for a proposed special variation to their General Fund's rates revenue as part of their Integrated Planning and Reporting (IP&R) process. The IP&R documents will need to be publicly exhibited and adopted by the council prior to it submitting its application to us. Also refer to section 6 for a more detailed explanation.

The key IP&R documents are the Community Strategic Plan, Delivery Program, Long Term Financial Plan and, where applicable, the Asset Management Plan. A council's application may also include supplementary and/or background publications used within its IP&R processes. You should refer to these documents to support your application for a special variation where appropriate.

2.2 Key purpose of special variation

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

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

You should summarise below the key aspects of the council's application, including the purpose and the steps undertaken in reaching a decision to make an application.

The purpose of the SRV application is to increase Council's Own Source Revenue in order to provide Council with the ability to:

a) Deliver services at the level expected by our community, and

b) Meet all FFF benchmarks by 30/6/2020.

Council's journey towards the decision taken at a Special Meeting of Council held on 8 February, 2017 began in mid 2009, when Council's Long Term Financial Plan for the 2010 – 2020 period was considered. The Long Term Financial Plan indicated that the rate of

increase in Council's costs was greater than the rate of increase in Council's revenue sources. At that time it was estimated that a minimum 5% SRV would be required in 2016/2017 or 2017/2018. This projection was negatively impacted by the subsequent freeze of Council's Finance and Assistance Grant costing Council $436K p.a. (being equivalent to a 4.15% Rate Increase). Also impacting this projection was the large decrease in Interest Rates costing Council $500K p.a. (equating to a 4.76% Rate increase), the rapid escalation of Council's Costs, the continued Cost Shift from the Federal and State Governments onto Council now estimated at $1.74M p.a. (equating to a 16.27% Rate Increase), and the increasing pressure being placed on Council's infrastructure Assets by increased heavy usage especially by heavy vehicles in respect of the vast Shire Road Network.

The Council approved response was to:

i) Identify those aspects of Council's operations that could be delivered at a lower cost to produce operational efficiencies or could be delivered by an alternative method that enhanced operational effectiveness,

ii) Seek to apply a 'user pays' approach to non-rate revenue sources in order to increase this funding source,

iii) Consider a SRV after the 'Operational Efficiency and Effectiveness' (OEE) program had been in effect for a sufficient period to enable reassessment of Council's Long Term Financial position.

The ongoing OEE program did deliver substantial measurable financial benefits. Some of the specific actions taken by Council are highlighted elsewhere in this application, the impact can be seen in the 'Real Operating Cost per Capita, Fit for the Future (FFF) Benchmark. This ratio shows a 24.75% decrease in Real Operating Costs per Capita from 2009/2010 to 2015/2016.

Council engaged TCorp to analyse its financial position in 2012. TCorp concluded that "The Council has been well managed over the review period", however, TCorp noted in their observations that:

- *Council has spent less than required on maintenance in two of the last three years*

- *The majority of the infrastructure backlog is from road related assets*

- *Council's financial flexibility has been acceptable with the Operating Ratio above the group average and Own Source Operating Revenue Ratio marginally below the Group average;*

- *Council's Debt Service Cover Ratio (DSCR) and Interest Cover Ratio are above the group average and above the benchmark. In the medium term Council's forecast ratios are expected to remain above the group averages and benchmarks;*

- *Council was in a sound liquidity position which is expected to continue in the medium term;*

- *Council's performance in terms of its Building and Infrastructure Asset Renewal Ratio and Infrastructure Backlog Ratio have been weaker than the benchmarks;*

- *Asset renewal performance has improved in recent years to be above the group average;*

- *Council's Asset Maintenance Ratio and Capital Expenditure Ratio have been in line with the group averages and benchmarks.*

These key observations however, pointed to the fact that while Council was financially sound, issues around the level of Council's Own Source Revenue and consequently Asset Renewal Expenditure and the Infrastructure Backlog were starting to emerge. These observations were in line with the trends identified in Council's 2010 – 2020 Long Term Financial Planning and Asset Management Planning.

TCorp in their Report noted the following as being Specific Risks to Council's ongoing operations and sustainability:

- *Environmental and Natural Disasters - Inverell has had four natural disaster declarations in the last three years. They have had three floods and a bushfire. Council's management of this risk is substantially reliant on being able to receive both State and Federal funding under various "natural disaster" funds.*

- *Deterioration of Council Infrastructure Assets - Over the last three years the infrastructure backlog has increased. If this trend continues it may be reflected in lower quality infrastructure assets. Council has spent an increasing amount on asset maintenance and renewal in an attempt to reverse this trend.*

- *Expenses Growth - Council had substantial expenses growth in 2011 that was not matched by revenue growth.* ***Given Council is subject to the rate peg, it is unlikely that revenue will be able to grow in line with expenses growth*** (emphasis made by Council due to its relevance to this application). *Therefore, Council will need to manage expenses growth going forward.*

As shown in the 2012 TCorp Financial Assessment and 2013 follow up report by TCORP, Council was approaching a point where its Revenues could no longer match its Expenditures under the Rate Peg limit. TCorp confirmed Council's view that in the medium term Council would need to consider increasing General Revenues through a Special Rate Variation.

Further in 2013 the Office of Local Government undertook an Asset Management Audit of Council as part of their council-by-council Audit of the NSW local government infrastructure backlog. The Office of Local Government rated each Council's Asset Management Program. Council's Asset Management Program was rated as being "Moderate". This resulted from Council not being able to fully fund its asset

maintenance requirements during the review period (ie 2009 to 2012) and the existence of an Infrastructure Backlog. While Council was able to allocate funding to address this matter in the short term, the point has now been reached where Council is not able to adequately resource its Asset maintenance and Asset Renewal needs.

FIT FOR THE FUTURE (FFF):

In 2015 the State Government released its FFF Benchmarks which provided a set of standards for all NSW Councils to achieve in order to be considered "Fit for the Future" and financially sustainable. Application of these benchmarks to Council's operation showed, as per Council's FFF Roadmap, that in 2015 Council met five of the seven FFF Benchmarks for the review period. At that point of time Council did not meet the Operating Performance (-0.08) and Own Source Revenue Benchmarks (58.2%). While on original calculations Council also had an Infrastructure Backlog greater than the required < 2.0% Benchmark, Council was able to re-purpose funding from its Internally Restricted Assets to the Infrastructure Backlog to reduce this Benchmark to 1.83%.

The application of the FFF Benchmarks resulted in a revision of Council's Long Term Financial Plan and supporting Documents. The outcome of this review was a recognition that the OEE Program had delivered the major savings to be achieved within the parameter of 'maintaining existing service levels' to that point in time, and that in order to achieve a matching of expenditure requirements with required revenue from own source revenues that a SRV application needed to be prepared to be commenced in 2017/2018.

Council's FFF Roadmap was subsequently approved by IPART and Council was declared Fit for the Future. Council's FFF Roadmap required that Council take a number of Key Improvement Actions commencing in 2016/2017. These actions were as follows:

1. Review of Fees and Charges completed annually.

2. Solar Energy Systems installed at Inverell Pool and SES Facilities.

3. GPS Tracking devices installed in the remainder of Council's Plant Fleet.

4. Special Rate Variation Application prepared and approved to commence in 2017/2018.

5. Special Road Renewal Infrastructure Backlog Program completed.

6. Inverell Swimming Pool Asset Renewal Project planning completed.

7. Review of Council's Long Term new Infrastructure needs to support its growing community completed.

8. Annual Review of Operational Efficiency/Effectiveness (OEE) Program conducted.

These actions have been progressed in the following manner:

a) A full review of Council's Long Term Financial Plan, Fees and Charges and Council's Operational Efficiency/Effectiveness Program was conducted in the preparation of the 2016/2017 Operational Plan and Budget. A funding allocation was provided in the 2016/2017 Budget for the continued roll out of GPS Tracking Devices for Council's Plant Fleet.

b) In respect of these actions it is noted that as the NSW SES are now responsible for the payment of Electricity Charges for SES facilities with Council only contributing 11.3% to the costs. Accordingly the SES Solar Energy Project was moved to the Inverell Art Gallery and matched with Grant Funding to deliver a Solar Energy System at the Gallery, where Council is responsible for the full electricity costs.

c) GPS tracking has been installed in an additional 40 vehicles. 20 of the targeted plant items remain to be treated in the 2017/2018 Financial Year.

d) The Special Road Renewal Infrastructure Backlog Program is in progress and will be completed early in 2017/2018 having been delayed by the continuing wet weather. Planning has commenced for the Inverell Swimming Pool Asset Renewal Project.

e) A brief is being preparing for the possible engagement of a specialist technical consultant to assist in the Swimming Pool plan.

f) A further review of the Long Term Financial Plan has now been conducted, noting that a range of issues have arisen since June, 2016 including the Valuer General issuing new Rating Land Values. These are discussed later in this report.

g) The Efficiency and Effectiveness (OEE) Program continues.

The only remaining action to be addressed is the FFF Roadmap SRV Application which is the subject of this Application.

It is noted that an extensive media and promotion campaign was put in place to publicise Council's FFF Roadmap and these identified actions, being the actions that Council would need to put in place for Council to be declared "Fit for the Future", both initially and on a continuing basis.

In the FFF Roadmap, IPART also asked what other Actions Council had considered in this matter. Council advised IPART that:

"Council notes that it has considered its current funded service levels provided to the community and advises that is not prepared to pursue a decrease in these existing service levels. Such a strategy would have significant and lasting negative economic, environmental and social impacts on the Shire Community and the Region". The Community Engagement conducted by Council for the proposed SRV shows that an overwhelming 92% of survey respondents do not want Council to reduce its expenditure on existing Service Levels and that many would in fact like Council to significantly increase its expenditure on maintaining and improving Service Levels/Infrastructure.

FINANCIAL MATTERS:

Financial Modelling conducted by Council over an extended period commencing in 2009 and especially in the preparation of the adopted IPART approved FFF Roadmap and Council's Long Term Financial Plan (LTFP) 2016 – 2026 (now updated to 2017 - 2027) indicates that Council has now reached a point where its Revenues no longer cover the level of expenditure needed to meet existing service levels.

There are a wide range of factors which have produced this situation and these factors are dealt with in this report.

The Financial Modelling clearly indicates that Council's General Fund Budget under its existing Revenue Path will move from a long standing "Balanced Budget" to a $510K Deficit in 2017/2018 and future budgets will remain in a Deficit position (with deficits of an increasing quantum) if Council is to maintain its existing Service Levels and Operations, and undertake its required Asset Renewals. In this regard and as noted, Council committed to maintaining its existing Service Levels in its 2015 FFF Roadmap to meet Community demands and expectations, while minimising Council's exposure to Insurance and other Risks.

The total forecast Budget Deficit for the period 2017/2018 to 2026/2027 is now $15.5M in the General Fund for Council's current Revenue Path or $16.2M, if Council is to maintain its Industry Assistance/Joint Promotions Budget at a similar level to the $150K p.a. Budget of the last 12 years. This Budget Allocation has proved invaluable in supporting and growing the local and Regional Economy, especially since State Government Business support and growth Funding has largely dried up. Without the SRV that annual Budget allocation in this area will decline to $33K p.a. essentially meaning that Council will not be able to provide any significant encouragement or assistance to new or existing businesses or the local economy. Overall, the point has now been reached where Council needs the proposed SRV.

<u>HOW THE 14.25% (14.94% cumulative) SRV WILL BE SPENT OVER THE FFF ROADMAP PERIOD to 2026/2027:</u>

Over the last two years Council has been very open in discussing with the Community where the additional revenue generated by the SRV would be spent. The additional amounts as shown below are expected to be realised from the SRV over the Long Term Financial Plan period. The figures exclude the annual Rate Peg due to the actual increases over the last three years being lower than the IPART recommended 2.5% annual increase for budgeting and long term financial planning purposes:

The proposal special rate variation will generate approximately the following additional amounts each year:

- 2017/18 $ 511,897
- 2018/19 $ 1,068,613

- 2019/20 $ 1,678,680
- 2020/21 $ 1,720,647
- 2021/22 $ 1,763,663
- 2022/23 $ 1,807,755
- 2023/24 $ 1,852,949
- 2024/25 $ 1,899,273
- 2025/26 $ 1,946,754
- 2026/27 $ 1,995,423

TOTAL $16,245,654

The additional $16.25M raised during the period to 2026/2027 will be expended as follows:

- $4.08M will be allocated to keeping the General Fund Budget in Balance to ensure existing Service Levels across all Council's General Fund functions are maintained;

- $2.76M to additional maintenance and asset renewal activities on the Rural Road Network to ensure Service Levels are met and the useful lives of the assets are maximised (drainage, bitumen maintenance and patching, roadside slashing, gravel maintenance and patching, vegetation management etc);

- $1.11M to road grading to enable existing Service Levels to be met as discussed at the October, 2016 Committee Meetings;

- $5.10M to the Infrastructure Backlog, being for Heavy Patching, Pavement Stabilisation and Rehabilitation on the Regional Road Network;

- $1.67M for additional Bitumen Reseals and Gravel Resheeting to prevent the Infrastructure Backlog from re-emerging;

- $440K for Culvert and Causeway, Drainage, and Footpath Renewals in the long term;

- $400K for Urban Asset Renewals;

- $680K to Maintaining Council's Industry Assistance/Joint Promotions Budget Allocation at a level as close to $150K p.a. as possible; and

- A very small $10K Operating Surplus for the Period.

As shown, the largest proportion of the additional revenue, being $10.64M will be allocated specifically to the Regional and Shire Road Network, $440K to Culvert/Causeway/Drainage/Footpath Renewals, $4.08M will be allocated across all Council's General Fund functions to ensure Council's Existing Service Levels across the Organisation can be maintained, noting that many budget areas have not seen a budgetary increase in the last six years outside of increases in unavoidable fixed costs and $680K to maintaining Council's Industry Assistance/Joint Promotions Budget. $400K will be allocated over the ten year life of the LTFP to the Urban Areas for additional asset renewals.

2.3 Capital expenditure review

You should complete this section if the council intends to undertake major capital projects that are required to comply with the OLG's Capital Expenditure Guidelines, as outlined in OLG Circular 10-34. A capital expenditure review is required for projects that are not exempt and cost in excess of 10% of council's annual ordinary rates revenue or $1 million (GST exclusive), whichever is the greater.

A capital expenditure review is a necessary part of a council's capital budgeting process and should have been undertaken as part of the Integrated Planning and Reporting requirements in the preparation of the Community Strategic Plan and Resourcing Strategy.

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

3 Assessment Criterion 1: Need for the variation

Criterion 1 in the OLG Guidelines is:

> *The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:*

- *Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and*
- *Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.*

Evidence to establish this criterion could include evidence of community need /desire for service levels/projects and limited council resourcing alternatives.

Evidence could also include the assessment of the council's financial sustainability conducted by the NSW Treasury Corporation.

The response to this criterion should summarise the council's case for the proposed special variation. It is necessary to show how the council has identified and considered its community's needs, as well as alternative funding options (to a rates rise).

The criterion states that the need for the proposed special variation must be identified and clearly articulated in the council's IP&R documents especially the Long Term Financial Plan and the Delivery Program, and, where appropriate, the Asset Management Plan. The purpose of the proposed special variation should also be consistent with the priorities of the Community Strategic Plan.

3.1 Case for special variation - community need

Summarise and explain below:

- How the council identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision.
- How the decision to seek higher revenues above the rate peg was made and which other options were examined, such as changing expenditure priorities or using alternative modes of service delivery.
- Why the proposed special variation is the most appropriate option: for example, typically other options would include introducing new or higher user charges and/or an increase in council loan borrowings, or private public partnerships or joint ventures.
- How the proposed special variation impacts the Long Term Financial Plan forecasts for the General Fund and how this relates to the need the council identified. Our assessment will also consider the assumptions which underpin the council's Long Term Financial Plan forecasts.

In addressing this criterion, you should include extracts from, or references to, the IP&R document(s) that demonstrate how the council meets this criterion.

HOW HAS COUNCIL IDENTIFIED AND CONSIDERED THE COMMUNITIES NEEDS AND DESIRES IN RESPECT OF LEVELS OF SERVICE DELIVERY AND ASSET MAINTENANCE AND PROVISION:

Council has been committed to considering the Communities needs and requests in respect of Levels of Service delivery and Asset Maintenance and Provision, as part of its ongoing commitment to the Community and Integrated Planning and Reporting process. This commitment has seen a focus on delivering "Best Value" to its Community (The aim to improve required local services in terms of both cost and quality). In this commitment Council has been responsive to the needs and requests of its community, with a primary focus on the delivery of core local government services within Council's limited budgets. Council has been careful to not over stretch its limited resources by becoming involved in service areas better suited to other public organisations or private enterprise. If a new or expanded service need has arisen in the community Council has in many instances taken on the role of service facilitator, rather than service provider.

This approach has worked well for Council over many years, with Council being able to Balance its Annual Budgets, provide sound Services and Infrastructure to ensure a vibrant and healthy growing community, without having to seek a Special Rate Variation to this time, since the introduction of Rate Pegging in 1978.

Service Levels

In the preparation of Council's FFF Roadmap, Council undertook a review of its existing Service Levels and Asset Maintenance and Provision in accordance with its adopted IP&R Documents including the Asset Management Plans.

As detailed in the FFF Roadmap, Council determined that;

"Council notes that it has considered its current funded service levels provided to the community and advises that is not prepared to pursue a decrease in these existing service levels. Such a strategy would have significant and lasting negative economic, environmental and social impacts on the Shire Community and the Region.

When council placed its FFF Roadmap and IP&R Documents on Public Exhibition these were generally supported by the Community.

It is noted that on a continuing basis, the Community had always expressed a strong desire for Council to increase or at a minimum maintain its existing Service Levels both through individual requests and Community Meetings.

It has now been clearly confirmed through the Community Engagement process conducted by the University of Technology Sydney (UTS) in respect of the proposed SRV, that the Community does not wish to have Council's Existing Levels of Service delivery and Asset Maintenance and Asset Provision reduced. 92% of respondents to a survey conducted during the Community Engagement by UTS and the Community Focus Group Panel, think Council "should spend either a lot more on services in their area, or the same as what is currently spent. Just 4% of Inverell Shire Residents think local

government should spend less on services than what is currently spent. A similar amount is unsure".

Risk Management

Management of Organisational Risk and Risk Mitigation Strategies were carefully considered by Council in the preparation of the FFF Roadmap and Long Term Financial Plan (LTFP) in respect of Council's Service Levels. These two matters were the major factors in Council not seeking to reduce Services Levels in preparing its FFF Roadmap and LTFP, particularly on Council's very large Road Network. While it may in theory be easy to say that Council can reduce Service Levels, for example the frequency of Grading on Gravel Roads, the failure to adequately maintain these Assets exposes Council, its Staff and the Community to significant public safety and Insurance Risks.

It also needs to be considered that not providing adequate Funding for Asset Maintenance and Renewal also exposes Council to significant Financial Risk. It is a known fact that failing to maintain Assets to a sound functional standard results in faster Asset deterioration, substantially increasing Asset Renewal costs as "Asset Useful Lives" are shortened. For example failing to Reseal Bitumen Roads in an appropriate timeframe (average 15 year cycle) at a cost of $30K per kilometre leads to water ingress and rapid Road Pavement failure resulting in higher annual Road Renewal/Rehabilitation Costs of between $250K and $400K per kilometre. A poorly maintained roads Useful Life can be half that of an appropriately maintained Road.

In respect of Risk Management, Council has a sound reputation for strong Risk Management and Minimisation which is evidenced by the significant cost savings flowing back to the Council and Community through the OEE Program.

HOW THE DECISION TO SEEK HIGHER REVENUES ABOVE THE RATE PEG WAS MADE AND OTHER OPTIONS EXAMINED:

Council's decision to seek higher revenues above the Rate Peg has not been made lightly and has only come at the end of an extensive and exhaustive Council review process that has been conducted over many years, including the preparation of Council's FFF Roadmap which was unanimously endorsed by the previous Council and subsequently approved by IPART.

A range of issues related to the decision to seek higher revenues above the Rate Peg, were considered.

Long Term Financial Plan/Financial Position and Modelling

Financial Modelling conducted by Council over an extended period commencing in 2009 and especially in the preparation of the adopted IPART approved FFF Roadmap and Council's Long Term Financial Plan (LTFP) 2016 – 2026 (now updated to 2017 - 2027) clearly indicates that Council has now reached a point where its Revenues no longer

cover the level of expenditure needed to meet existing service levels and infrastructure needs.

There are a wide range of factors which have produced this situation and these factors are dealt with in this Application.

The Financial Modelling clearly indicates that Council's General Fund Budget under its existing Revenue Path will move from a long standing "Balanced Budget" to a $510K Deficit in 2017/2018 as all significant efficiency and other gains are now exhausted. Future budgets as shown in the Long Term Financial Plan will remain in a Deficit position (with deficits of an increasing quantum) if Council is to maintain its existing Service Levels, Operations, and undertake its required Asset Renewals. In this regard Council committed to maintaining its existing Service Levels and assets in its 2015 FFF Roadmap to meet Community demands and expectations, while minimising Council's exposure to Insurance, Reputational and Finance Risks.

As noted in Section 1, the total forecast Budget Deficit for the period 2017/2018 to 2026/2027 is now $16.2M in the General Fund for Council's current Revenue Path. (Further details in this matter are provided in the Long Term Financial Plan Section of this Application). The proposed SRV is the only option remaining to Council in producing the ongoing quantum of funds necessary for Council to be able to meet its Service and Asset delivery needs, and its FFF needs on a recurrent basis.

Service Levels

As noted above in Section 1, Council undertook a review of its existing service and infrastructure levels as part of the FFF Roadmap process to determine if some service levels could be cut, thereby freeing up funding for other required services. Based on Representative Community Engagement conducted by the University of Technology Sydney an overwhelming 92% of survey respondents, who are representative of the wider community, do not want Council to reduce its existing services and infrastructure. Breaking this down 26% believe Council should spend a lot more on services, 33% believe Council should spend a little more on services, and 33% believe Council are spending about the right amount on Services.

As existing Services cannot be cut, Council has little option but to seek higher revenues. A smaller survey conducted by Council on its Website, which is not representative of the Shire's demographics had 72% of survey respondents wanting Council to either maintain or improve its existing Service Levels and Infrastructure. The only option remaining for Council to be able to maintain existing Service Levels, is the proposed SRV.

Asset Management Plans

Council's Roads, Footpaths and Drainage Asset Management Plans were adopted by Council in June, 2016 following their public exhibition and community consultation. These Plans require that the proposed 14.25% SRV (14.94% Cumulative) plus Rate Peg Scenario Option be implemented in accordance with Council's FFF Roadmap from 2017/2018.

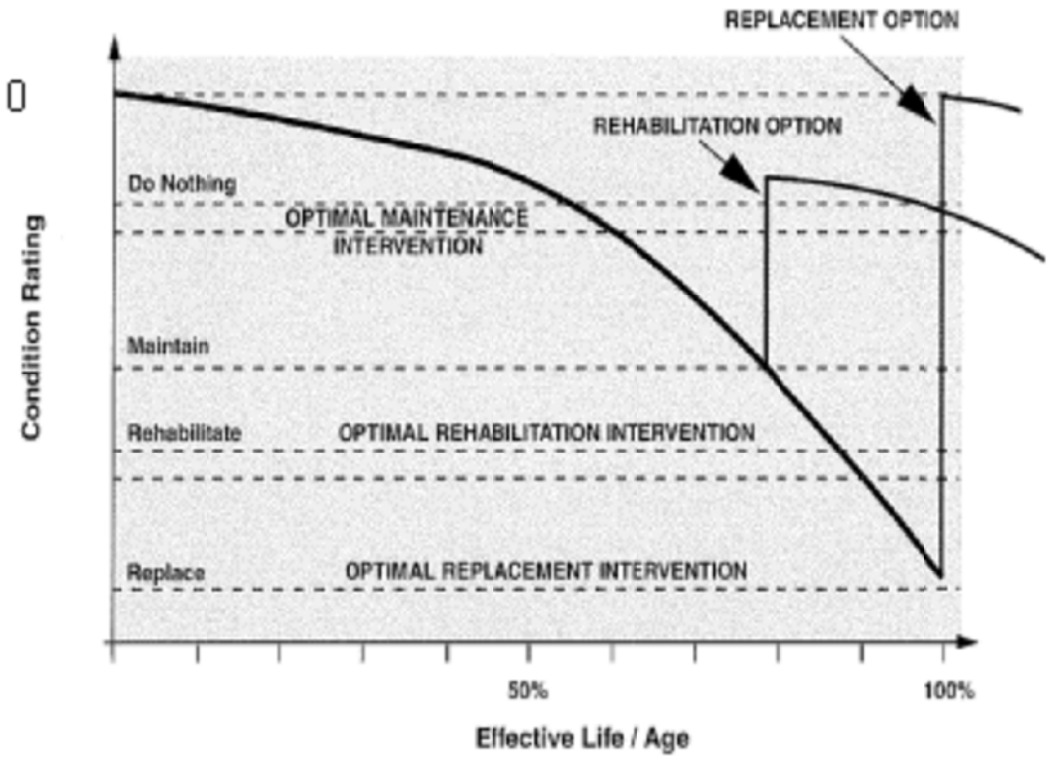
Council's Buildings and Other Structures Asset Management Plans are in draft format, having been prepared by external Consultants, CT Management Group from Queensland who has strong experience in this area. In providing the Draft Management Plans to Council the Consultants have advised the following:

"I must congratulate Council firstly. Overall, your buildings and other structures are in very good shape and frankly, would be the envy of the majority of Councils across Australia. Indeed we have not come across a Council that has managed their facilities so well in the past six years of doing these building condition assessments. Council's prudent management approach is certainly providing a sustainable portfolio of facilities to support the services that Council is providing into the foreseeable future" - Owen Harvey - Regional Manager Queensland.

CT Management Group have noted that Council's Buildings and Other Structures Asset Maintenance and Asset Renewal needs with careful planning can be funded from within Council's recurrent Buildings and Structures Budgets, in conjunction with the funds held in the Internally Restricted Assets for Buildings and Other Structures.

<u>What happens to Council's Assets if Existing Maintenance and Asset Renewal Service Levels are reduced</u>

The following model utilised by Council for the lifecycle of its sealed road pavements is presented below and highlights the maintenance and renewal stages of its road pavement life.



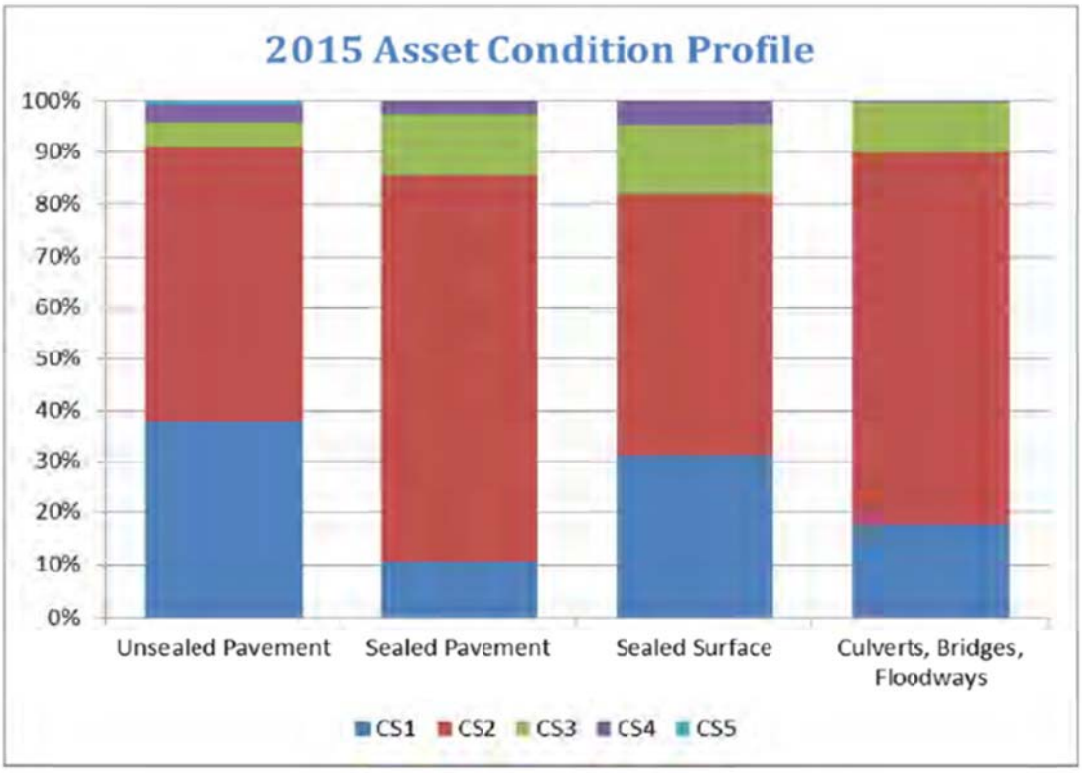
In the “Do Nothing” phase, the asset deteriorates slowly and maintenance is generally not required. In the “Maintain” phase, activities will need to be performed to minimise continued deterioration. In the “Rehabilitate” or “Renewal” phase, activities are undertaken that restore the asset to a condition close to that of the original.

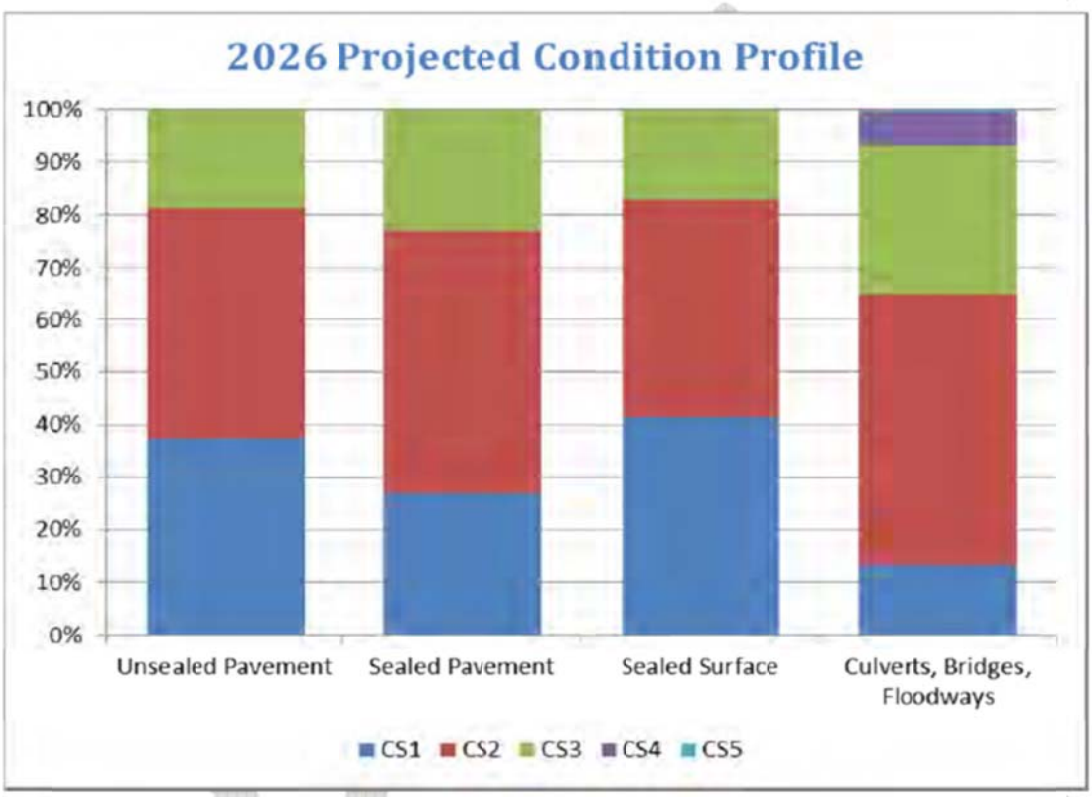
The importance of the time for intervention for renewal is paramount. If renewal activities are not undertaken in a timely manner, the condition of the asset deteriorates rapidly to failure, and the cost of reconstruction, will be many times that of renewal/remedial activities. For example failing to Maintain/Reseal Bitumen Roads (minor rehabilitation being minor Heavy Patching and Reseal at approximately $28K - $35K per km) in an appropriate timeframe, leads to pavement oxidisation, water ingress and rapid Road Pavement failure. This results in the need for higher level intervention in the form of FULL Road Renewal/Rehabilitation (at $250 - $400K per km).

Therefore, if Existing Service Levels are reduced, and asset maintenance and renewal times extended then the costs of bringing assets back to a satisfactory standard for Council can be ten fold.

The only option for Council to generate the significant recurrent revenues required under Council’s Asset Management Plans is the proposed SRV.

Based on long term Asset Condition and Age Profiles, the SRV will need to be maintained after 2025/2026 to provide for Council’s ongoing expenditure needs. Page 12 and Page 13 of Council’s Road Asset Management Plan 2017 - 2026 as shown below highlight the expected move in Road Asset Condition Ratings over time with the SRV, showing a greater number of assets at Condition 3 (CS3) or below in 2026 than in 2015. The same applies for Council’s Drainage and Footpath Assets.





As shown above, while it is planned to remove the Infrastructure Backlog over the next ten years under the SRV Revenue Path, a greater proportion of Assets are expected to

move into the lower Condition Levels being Condition 3, 4 or 5 over this period. This indicates that even with the proposed SRV and the high level of Asset renewals, Council may struggle to fund its ongoing asset renewal needs in the longer term ie > 10 years. This flows directly from Council's very high road length and relatively sparse population. Without the SRV the overall condition of Council's Assets deteriorates from 2017/2018 and the Backlog escalates, making it extremely difficult for future Councils to address the issue and severely disadvantaging the Community.

Infrastructure Backlog

A major issue for all Councils is the Infrastructure Backlog and the need to address the Backlog over a realistic time period, and as far as possible ensure that future backlogs do not arise. In 2014 and 2015 Council undertook a comprehensive review of its Road and Transport Infrastructure Asset Class using Specialist Consultants and the latest Asset Data Capture Technology for the purpose of establishing the true condition of this class of Council Asset, the required Accounting Asset Revaluations and to establish a reliable base line in Council's extensive Road and Transport Asset Infrastructure Class.

At the end of this process it was determined that Council had a reportable Infrastructure Backlog of $5.1M, being a Backlog of Asset Renewal works of $10.1M as at 30 June, 2015, less $5.0M re-purposed from Council's Internally Restricted Assets to address some of these works. Council was at that point, in the fortunate position of having $5.0M of funding it could re-purpose to address part of the Infrastructure Backlog, however, no further funding is available to address this matter. The Roads Backlog would have been higher had the Federal Government not provided the additional one-off special Roads to Recovery Grant Allocations.

The Infrastructure Backlog relates entirely to Asset Renewal activities required on the Regional Sealed Road Network (higher traffic roads with higher Heavy Vehicle counts). That said without an injection of additional funding into Asset Maintenance and Asset Renewal Works from the proposed SRV, as shown in the FFF Benchmarks and Long Term Financial Plan, Council will not be able to fund the required annual Asset Maintenance Program from 2017/2018 and the Infrastructure Backlog will start to rapidly increase again from 2018/2019 as assets deteriorate.

The Infrastructure Backlog issue has received extensive Media Coverage over the last two years, including very significant coverage and negative comment on Social Media (Facebook). This matter has been the subject of numerous reports to Council and an extensive presentation to Council and the Community. This matter was raised as a major issue by the Concerned Inverell Ratepayers Association and their endorsed Candidates during the 2016 Council Elections who wanted the Backlog urgently addressed, and who claimed the Backlog much larger, and who at the same time opposed a SRV. (The comprehensive Presentation provided to Council and the Community in this matter and is included in Council's 2016/2017 Integrated Planning and Reporting suite of documents on Council's Website).

It is noted in reviewing Council's Infrastructure Backlog as noted above it relates entirely to the Road Network, with Council having 2,134 km of Roads, being 47% more Roads, than the NSW Group 11 Council average of 1,451 km. While one-off Special Roads to Recovery Grant allocations over the last two years have been beneficial, almost $1M of this amount has had to fill the Road Asset budgetary hole created by the Federal Government freezing the indexation of the Finance and Assistance Grants. Further, ongoing extreme weather events are taking a toll on Council's Road Assets and in the last six months alone an additional $0.4M has had to be spent on repairing flood damaged roads, with no Government assistance. The only way of funding these immediate asset maintenance and renewal needs is by further delaying programmed Road Asset renewal works which negatively impacts the Infrastructure Backlog.

The only option available to Council to address the remaining Infrastructure Backlog and to ensure adequate funds are available to ensure the Backlog does not escalate rapidly is to seek higher revenues. The only option for generating significant recurrent revenues is the proposed SRV.

FFF Roadmap and Benchmarks

The proposed SRV is a major action required under Council's IPART approved FFF Roadmap. As per Council's FFF Roadmap, in 2015 Council met five of the seven FFF Benchmarks for the review period. At that point of time Council did not meet the Operating Performance (-0.08) and Own Source Revenue Benchmarks (58.2%). While on original calculations Council also had an Infrastructure Backlog greater than the required < 2.0% Benchmark, Council was able to re-purpose funding from its Internally Restricted Assets to the Infrastructure Backlog to reduced this Benchmark to 1.83%.

The application of the FFF Benchmarks has resulted in a revision of Council's Long Term Financial Plan and supporting Documents on a continuing basis. This ongoing review has continued to show that while there has been some movement in the FFF Benchmarks over time and with Accounting changes, circumstances still require that for adequate revenues to be available that additional revenues from the proposed SRV are needed commencing in 2017/2018.

Based on the latest available data, the following FFF Benchmarks would be achieved under a Base Case – No SRV Option, with Council not being Fit for the Future.

General Fund - Excluding SRV

RATIO	BENCHMARK	CURRENT BUDGET	PROPOSED BUDGET									
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Debt Service Cover Ratio	Greater than 2	24.08	32.65	32.45	32.02	31.93	31.70	31.53	31.50	31.43	31.53	TBA
Own Source Operating Revenue Ratio	Greater than 60% average over 3 years	55.87%	60.24%	60.26%	60.25%	60.33%	60.42%	60.51%	60.63%	60.72%	60.87%	61.00%
Operating Performance Ratio	Greater or equal to break even average over 3 years	0.15	0.03	0.03	0.03	0.03	0.00	0.02	0.02	0.02	0.02	0.00
Cash Expense Cover Ratio	Greater than or equal to 3 months	29.07	21.49	20.02	18.30	16.39	15.64	13.77	12.61	11.40	10.30	9.39
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	229.30%	176.35%	193.38%	187.58%	204.03%	150.86%	211.76%	178.70%	185.70%	183.25%	185.60%
Infrastructure Backlog Ratio	Less than 2%	1.44%	1.48%	1.56%	1.63%	1.76%	1.89%	2.08%	2.07%	2.30%	2.60%	2.88%
Asset Maintenance Ratio	Greater than 100% average over 3 years	101.50%	97.16%	96.47%	95.84%	95.06%	94.76%	94.50%	94.22%	93.56%	93.53%	93.43%
Real Operating Expenditure Per Capita Result	A decrease in Real Operating Expenditure per capita over time	1.1442	1.1304	1.1180	1.1090	1.0994	1.0901	1.0792	1.0696	1.0614	1.0522	1.0456
Debt Service Ratio	equal to 20% average over 3 years	0.86%	0.91%	0.89%	0.87%	0.85%	0.84%	0.82%	0.80%	0.79%	0.77%	0.00%

As shown under the No SRV Option Council cannot meet the required FFF Benchmarks and its Financial Position deteriorates and its sustainability is compromised.

Based on the latest available data, the following FFF Benchmarks are achieved under the proposed SRV, with Council being Fit for the Future on a continuing basis.

General Fund - Including the prposed 14.25% (14.94% cumulative) SRV plus Rate Pegs

RATIO	BENCHMARK	CURRENT BUDGET	PROPOSED BUDGET									
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Performance Ratio	Greater or equal to break even average over 3 years	0.15	0.05	0.07	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.07
Own Source Operating Revenue Ratio	Greater than 60% average over 3 years	55.87%	60.99%	61.77%	62.53%	62.62%	62.72%	62.81%	62.93%	63.02%	63.16%	63.30%
Debt Service Ratio	Greater than 0% and less than or equal to 20% average over 3 years	0.86%	0.89%	0.86%	0.82%	0.81%	0.79%	0.77%	0.76%	0.74%	0.72%	0.00%
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	229.30%	181.33%	207.60%	211.47%	225.83%	171.38%	230.96%	196.51%	200.53%	193.64%	191.64%
Asset Maintenance Ratio	Greater than 100% average over 3 years	101.50%	101.50%	102.00%	100.50%	100.50%	101.00%	101.50%	102.00%	102.00%	101.50%	101.00%
Infrastructure Backlog Ratio	Less than 2%	1.44%	1.37%	1.36%	1.18%	0.87%	0.63%	0.40%	0.24%	0.09%	0.00%	0.00%
Real Operating Expenditure Per Capita Result	A decrease in Real Operating Expenditure per capita over time	1.1142	1.1304	1.1180	1.1090	1.0994	1.0901	1.0792	1.0696	1.0614	1.0522	1.0456

OTHER OPTIONS EXAMINED:

Improving Council's Efficiencies and Cost Effectiveness – Operational Efficiency and Effectiveness (OEE) Program

Since 2009, Council has been undertaking a systematic review of its operations. This review has considered the efficiency and effectiveness of its Service and Infrastructure Delivery methods, the enhancement of the Asset Management system to enhance its sophistication, and subsequently Council's Revenue and Expenditure needs.

This Operational Efficiency and Effectiveness (OEE) Program has specifically:

- identified and put in place a wide range of efficiencies making substantial efficiency gains for the community, for the purpose of limiting or deferring any potential future SRV. An assessment of Council's Service and Infrastructure Delivery Benchmarks will show that Council's operations are efficient and effective, and as noted by TCorp in their 2013 review of Council that "The Council has been well managed over the review period";

- reviewed Council's Fees and Charges and where possible introduced new charges and increased existing charges, considering the Community's capacity to pay;

- gained a high level of non-recurrent Grant Funding to assist with the delivery of Services and Infrastructure to the Community; and

- reviewed Council's Investments, Council's Investment performance and its Internally Restricted Assets, and re-purposed funds Asset Renewal activities.

<u>Expenditure</u>

Since 2009 Council has had a strong focus on managing its expenditures to ensure it delivers its Services and Infrastructure in both an Efficient and Effective manner at the lowest possible cost to the Community. The OEE Program considered all areas of Council's Operations eg Works, Plant, Energy Usage, Governance, Administration, Information Technology, Service Delivery. The overarching objective of this focus has been to contain costs to delay the need to apply for a SRV.

The following expenditure saving matters and efficiency gains are noted:

- The FFF Program introduced a new Efficiency Benchmark being **Real Operating Cost per Capita**. The FFF Program requires that Councils "demonstrate a decrease in its Real Operating Cost per Capita over time, subject to any increase in Service Levels".

This benchmark shows that Council has achieved a **24.75% Efficiency Gain** or 3.53% per annum efficiency improvement for the seven (7) years ending 30 June, 2016, being the initial FFF Review Period. This demonstrates Council's ongoing commitment to Continuous Improvement, while maintaining and improving Service Levels. That said it has now become very difficult to identify and achieve further gains without compromising Service Delivery to the Community;

- Governance and Administration costs for 2014/2015 at $165.86 per capita **were 55% below** the Group 11 Council Average ($365.90 per capita) and under 50% of the NSW

Council average, resulting in more funds being available for Service and Infrastructure delivery;

• Workers Compensation premiums of $1.67 per $100 of Wages Paid, against an Industry Average of $3.61 per $100 of wages paid. Council has received every Workers Compensation and General Insurance Incentive and Performance Bonus from its Insurers since 2009 resulting in total cost savings of approximately $600K;

• Achieved Interest Rate Subsidies through the Local Infrastructure Renewal Scheme and Low Interest Rate Loans FFF Program, saving the Community $0.96M. Being deemed 'a FFF Council' has allowed Council access to Low Interest Rate Loans from NSW Treasury Corporation;

• Ongoing Electricity Cost savings of **$445K per annum** through Council's Solar Energy generation and Energy Efficiency Programs. As previously advised to Council the large proportion of these cost savings have largely been allocated to Road Grading and Road Maintenance cost increases to meet Service Level demands;

• Typical Residential Water Bill for 2014/2015 of $548 p.a. with no water restrictions, against a NSW Average of $550 p.a. and a NSW Councils 3,000 to 10,000 properties Average of $617 (Inverell **12% lower**) while providing significant ongoing water subsidies to Bindaree Beef (Inverell's largest employer and a business of State significance);

• Typical Residential Sewer Bill for 2014/2015 of $453.50 p.a. against a NSW Average of $625.00 p.a. being 27.5% less than the NSW average charge;

• Council has the Lowest Waste Management Charges in the Region and has now opened the new Inverell Community Recycling Centre. Part of this flows from the fact that Council's Waste Management Recycling Recovery Rate is 45% against a Group 11 NSW Council average of only 36%, significantly reducing Waste Disposal Costs;

• Council's Bitumen Reseal and Heavy Patching Costs are up to 25% below the IPWEA National Industry Benchmarks. While some of these cost savings have been utilised to accelerate the Bitumen Reseal Program, Council has also increased the quality of the Bitumen Products being utilised to extend its Bitumen Sealed Road Surfaces "useful lives";

• Council's Indicative average Gravel Road resheet cost of $14,000 per km (dependant on Gravel Pit location and haulage distances), being a 15% reduction in the unit rate due to ongoing efficiencies (cost was $16,500 to $18,500 a km in 2009). The last reported 2012/2013 RMS Regional Road Network Gravel Resheet figure was $26,500 per kilometre. Some Group 11 Council Gravel Resheeting Rates are up to $33,380 per km;

• Council has achieved an $180K p.a. reduction in Light Plant Fleet costs equating to a $1.8M cost saving over the next ten years. Council has also achieved efficiency gains of up to 10% across its Heavy Plant Fleet, and introduced GPS Fleet Monitoring to the Fleet. These initiatives have resulted in Council only increasing its Plant Hire Rates once in the last 6 years, bringing significant savings to Council's Works and Operational

Programs, while maintaining a modern, efficient, effective Plant Fleet at up to 20% below Commercial Plant Hire Rates;

• Over the period since 2009 Council has acquired thet latest technology Road Pavement reclaiming/recycling equipment, leading to substantial cost savings in Road Pavement Rehabilitation and Renewal costs (Pulvi Mixer/Reclaimer, Cement/Lime Spreading Truck, Posi Track loader with 1 metre Road Mill). In many cases, rather than expensive full Bitumen Road Rehabilitations and Renewals, Council now undertakes heavy patching followed by a bitumen reseal. An example of this type of work is the Bruxner Way where extensive heavy patching was undertaken and then a 50km long section bitumen resealed, substantially extending the useful life of this large road Asset at a cost of $1.91M, being substantially less than an estimated full renewal/rehabilitation cost of $16.25M for the 50km segment;

• Council has also changed its Road Grading Practices to include the use of Water Carts and Rollers with the Graders, to increase the life of each road grade and the quality of surface provided to meet Community expectations. Technical Staff have advised that while this has increased the cost of each grade, evidence collected to date has clearly shown that Gravel Road pavements and asset useful lives are being extended by this practice;

• Council has added Front-end loaders to a number of its Slasher Tractors to enable storm damage/debris to be cleaned up, and drainage issues to be addressed during the Roadside Slashing process, resulting in ongoing costs saving to the Bitumen Sealed Road Program;

• Council has undertaken a review of its Service Delivery and Legislative compliance needs.

As a result Council has:

o reverted to providing its Waste Management Functions, specifically Waste Collection and Waste Facility Management, by day labour with Council owned Plant and Equipment. This has avoided the significant Commercial Waste Contract cost increases being experienced by other Councils needing to be passed onto the Community;

o Following an extensive review, sold the Inverell Regional Saleyards to a specialist private Saleyards Operator. The net $2.14M of funds remaining after the sale were allocated to the Road Asset Infrastructure Backlog Program;

o Undertaken a review of Council's Land Bank, Council undertook to sell a number of surplus marketable properties with the proceeds being utilised to fund asset renewals. During this review it was also identified that two reserve areas being Bonshaw Weir and Well's Crossing were in fact owned by Local Land Services and Council discontinued maintenance of these areas at a saving of $18K p.a.;

o Following a review of Library Services, Council has reduced the Library Opening hours to normal business hours and introduced new technologies. This has directly resulted in

the annual Library Budget reducing from $1M p.a. in 2012/2013 to an estimated $0.75M in 2017/2018 with these cost savings of $250K being directed to unavoidable cost increases in other areas, particularly asset maintenance and renewal;

o In addition to these matters Council has sold all obsolete Plant, Materials and Equipment and continues this practice allocating these funds into the upgrade of required equipment with the latest technology;

o Council has and continues to encourage local Community Groups and Service Clubs to manage and maintain a range of local facilities with limited or no Council Financial support, or in partnership with Council. These facilities include the Inverell Pioneer Village and National Transport Museum, Inverell Rugby Park, Kamilaroi Oval, the Inverell Gun and Rifle Clubs, Lion's Park, and the significant number of Village Halls and Reserves;

o Council has established a Policy of continuously reviewing its Road Classifications based on Road Usage Patterns. This has resulted in Council no longer maintaining some sections of Roads which are solely contained within and only service expanded Rural Properties and National Park Areas. The Cost savings have been then utilised for Road Maintenance activities on higher usage roads, particularly those roads which have seen an expansion in Heavy Transport use;

o Council has and continues to partner with Local Land Services, the community and other organisations to complete major projects such as the upgrade of the Macintyre River and River Bank areas through Inverell, as a means of delivering strong community outcomes within Council's limited revenue base;

o Where possible Council also works with its neighbouring Councils to ensure Service Delivery costs are minimised. This includes joint purchasing, joint grant applications, joint promotional and community activities, and joint training. One recent major initiative was the Northern Lights Energy Efficient Street Lighting Program that saw seven of the regions Council working together to obtain supporting grant funding and deliver energy efficient LED Street Lighting to the entire region.

• Council has continued to embrace new Information Technology as a means of achieving ongoing efficiency and effectiveness gains. Works Staff now utilise mobile technology in their day to day activities for works scheduling and in addressing Community complaints. Council has continued to minimise its Administration/Printing and Stationery Costs through the production and distribution of electronic Media including its Business Papers;

• Council has implemented a range of Optic Fibre and Microwave Data Link Technologies for its numerous remote sights/locations to minimise its data and communication costs. Annual saving of $20K.

These very substantial Operational efficiency/effectiveness gains are the major factors that have resulted in Council's Operating Performance Ratio Benchmark improving from its past negative result to meet the FFF Program requirements of the Benchmark Ratio

being > 0.00% over a three year average, despite less that adequate revenue increases. These actions have aided Council in avoiding the need to seek an SRV at an earlier time, and also acted to ensure that is it operating efficiently and effectively before applying for a SRV.

Other General Revenue Sources – Can other Revenue Sources be increased ?

During the period since 2009, Council has also focused on its Revenues. Council has annually reviewed its "Fees and Charges" increasing them at or above inflation, and where possible has introduced new charges, particularly in the area of Waste Management and Stormwater Management. The Waste Management Charges and Stormwater Management Charges income can only, however, be utilised in those specific areas.

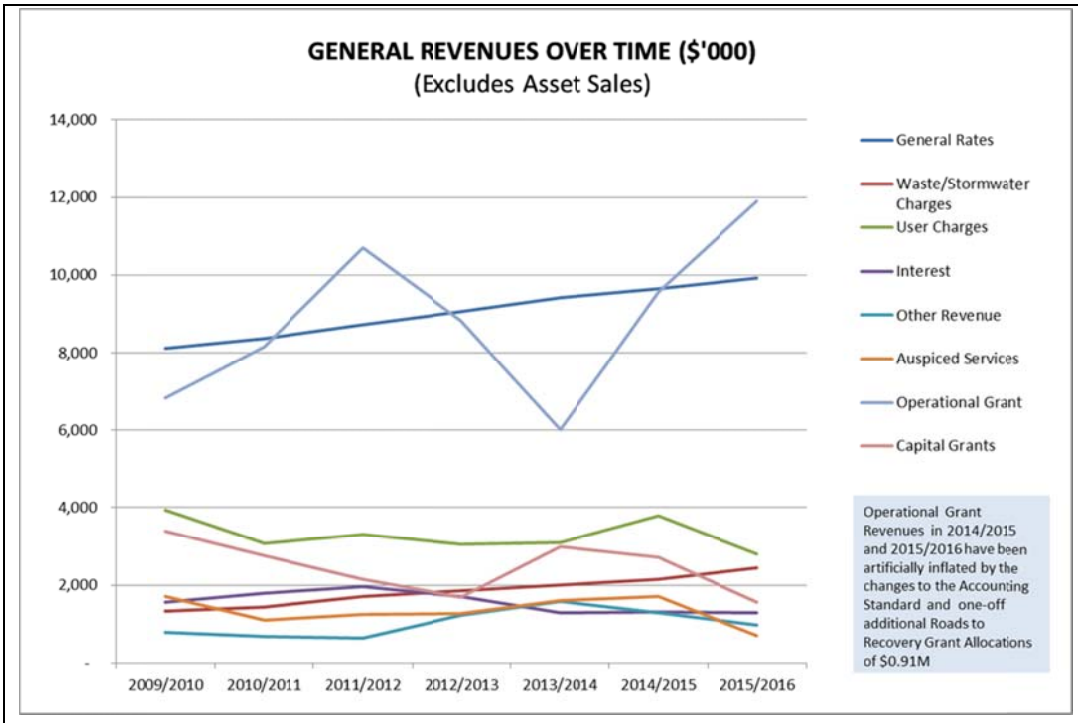
Council has reviewed its Land and Building Rentals, where possible moving them to full commercial rates. Surplus Assets have also been disposed of and an annual review is now undertaken of Council's Land Bank.

In respect of Revenue it is advised that during the period since 2009 the NSW Roads and Maritime Service (RMS) have reviewed its Road Maintenance and Renewal Contracts with Council. As a result Council now no longer makes a profit on the Contract Works it undertakes for RMS. Council previously used these profits to supplement the Shire Road Maintenance and Renewal Program noting that Council has the longest Regional Road Network of any NSW Council and a vast local Road Network. That said the ongoing undertaking of these works for the RMS helps produce further economies of scale into Council's Works Programs and provides additional local employment.

In 2013 Council employed a part-time Grants Officer. Council has been successful in attracting grants totalling $13.6M over the period 2012 - 2016 for Council and Community facilities, plus a further $6.7M for works on the State owned Gwydir Highway. This Officer now also fulfils the position of Manager Integrated Planning with Council. Council is careful in considering the long term consequences on Council's sustainability of Grants for new Infrastructure which has an additional ongoing maintenance cost.

As can be expected these grants are largely Specific Purpose Grants and cannot be utilised to address the recurrent expenditure needs identified in respect of the proposed SRV. Little Grant Funding is available for the renewal and upgrade of the Shire's vast road network or to fund recurrent budget deficits.

The following is a Graph of Council's Revenues over time.



Operational Grants includes one-off Waste Grants in 2014/2015 $521K and 2015/2016 $623K. Capital Grants includes one-off Sports Facilities Grants in 2013/2014 $528K, 2014/2015 $486K and 2015/2016 $542K for facilities upgrades and one-off Bridge Grant in 2014/2015 of $200K.

Loan Funding:

Council has considered the provision of "long life" Infrastructure Assets via Loan Funding where appropriate in the Long Term Financial Plan. Council currently holds loans for water, sewerage and waste infrastructure and has been successful in gaining LIRS Interest Rate Subsidies of TCorp low Interest Loans in this matter.

In considering whether Loan funding is an appropriate funding source for the needs identified in respect of the proposed SRV, Council has considered the nature of the funding needs, and also the part of the equation that is usually not given due consideration, being where the Principle and Interest Payments for the Loan are going to be funded from.

Council's Long Term Financial Plan does not identify any additional funding for new Loans Repayments, as Loan Repayments cannot be funded without a SRV. Any Loan Repayments would need to be funded by deleting works from existing Recurrent Works Programs. That is any Loan Repayments for an acceleration of the Roads Backlog Program would need to be funded from reducing the Recurrent Road Funding Program.

Further, if funds are removed from the recurrent Works Program to service Loan Repayments for accelerated Asset Renewals delivered in the short term, Council has identified that this will have a wider negative impact on Council's operations its efficiencies, effectiveness and economies of scale, its Workforce, Skills Retention, the Plant Fleet, and ultimately the wider community and local economy over the medium and long term. These are significant issues for any large Rural Council.

Noting the recurrent nature of Council's Operational, Asset Maintenance and Asset Renewal/Upgrade Funding requirements as identified in the Long Term Financial Plan, it is not considered that Loan Funding is a suitable source of funding for the recurrent identified expenditures to be funded from the proposed SRV.

That said, Council has indicated that it will consider new Loans for the Inverell Pool Redevelopment Project, if required, and for further Waste Infrastructure with the Loan Repayments being Funded from increases in the User Fees and Charges for these facilities.

Rate Base Growth To Generate Additional Revenues:

The growth of a Council's Rate Base (number of rateable properties) is seen as a way of generating additional revenues. In Inverell's case, the growth in rateable properties has slowed considerably since 2008/09 due to the impact of the Global Financial Crisis and other Global Factors. There has been little developer activity in the local area, which would indicate relatively low Rate Base in the foreseeable future and it is also noted that a significant number of subdivisions already exist which can service growth needs. Any growth in rateable property numbers will also be largely offset by an equivalent increase in Council's Costs especially in respect of Rural Residential Subdivisions which are at a relatively higher cost to maintain. As such no allowance has been made for a net gain in revenues flowing from growth in rateable properties in the financial modelling in the Long Term Financial Plan.

In this matter it is noted that Council's Annual Rate Base Growth averages only approximately 0.25% or $26K per annum.

Council Investments:

During the development of Council's FFF Roadmap and the update of Council's Long Term Financial Plan, it was discussed that Council holds significant investments. The level of Council's Investments has been raised in some sections of the community when Asset Maintenance and Renewal issues have been raised and the matter was raised by some candidates in the 2016 Council Elections.

As advised to Council on a continuing basis, and as noted by Council's External Auditor, significant restrictions exist over Council's Funds and the expenditure of those funds. As advised by Council's External Auditor these restrictions are only partly accounted for in Financial Indicators such as the Unrestricted Current Ratio, and just looking at these Ratios doesn't provide an accurate picture of a Council's true Financial Position. The following is advised:

LOCAL GOVERNMENT ACT 1993 - SECT 409

(1) All money and property received by a council must be held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

(2) Money and property held in the council's Consolidated Fund may be applied towards any purpose allowed by this or any other Act.

(3) However:

(a) money that has been received as a result of the levying of a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied, (ie WATER, SEWERAGE AND WASTE) and

(b) money that is subject to the provisions of this or any other Act (being provisions that state that the money may be used only for a specific purpose) may be used only for that purpose, and

(c) money that has been received from the Government or from a public authority by way of a specific purpose advance or grant may not, except with the consent of the Government or public authority, be used otherwise than for that specific purpose.

While Council held Cash and Investments totalling $51.83M as at 30 June, 2016 as detailed in Council's Audited Financial Reports the following restrictions exist over these funds:

Total Audited Investments 30/06/2016	**$ 51.83M**
Less **Externally Restricted Assets:**	
Water and Sewerage Funds - Restricted	$ 11.50M
Unexpended Sewerage Loan Funds	$ 1.80M
Waste Management Funds (Note 6, IRA's)	$ 3.64M
Grants and Contributions (Note 6)	$ 3.60M
Revotes for Works in Progress as at 30/06/16	$ 10.30M
Accounts Payable (Note 10)	$ 2.22M
Sub- Total after External Restrictions	**$ 18.77M**
Less Internally Restricted Assets: **	
- Plant Replacement (Funded from Depn)	$ 3.31M
- Building Renewals (Funded from Depn)	$ 2.52M

- ELE/Workers Compensation/Insurance $ 1.75M
- Inverell Pool Redevelopment $ 2.20M
- Computer System Renewals/Upgrades $ 1.01M
- Other (Land, Industrial Devel. SES etc) $ 2.64M

Less Provisions for future Projects with NSW Roads and Maritime Services:

- Chester Street Renewal with Roundabout $ 1.00M
- Mansfield/Gwydir Highway Intersection $ 0.50M
- Rosslyn Street/Gwydir Highway Intersect. $ 1.00M

NET CASHFLOW/WORKING CAPITAL $ 2.84M ***

(*** Is also Council's emergency funding for major disasters. Unseasonal Storm events have already cost Council over $0.4M in 2016/2017 without any Financial Assistance being available in this matter).

(** $6M repurposed from Internally Restricted Assets to Rural Road Renewal in 2015/2016)

As noted at Council's October, 2016 Committee Meetings and in a wide range of presentations to Council and the Community on a continuing basis, including presentations by the External Auditor, Council's Net Cashflow/Working Capital amount at 30/06/2007 was $5.8M. Council has managed to reduce this amount to the current approximate $2.84M which, as well as being the minimum amount required to meet Council's day-to-day Cashflow requirements, is also Council's emergency funding for Major Disasters.

A large proportion of the $10.3M in 2016 Budget Revotes is for the FFF Rural Roads Renewal Program Works which extends over 2016/2017 and into early 2017/2018. These are the works that are aimed at reducing the Infrastructure Backlog to $5.1M and other required Asset renewal works. These works are being delivered by Council and Contractors.

It is noted that Council repurposed and transferred $6.0M into the FFF Rural Roads Asset Renewal Infrastructure Program in July, 2015 after undertaking a full review of its Working Capital and its Internally Restricted Assets, with a view to reducing these amounts to the "minimum workable level" prior to the Special Rate Variation being sought.

Summary:

Despite all of these actions targeted at delivering "Best Value" (best outcome at the best price) service and infrastructure delivery to its Community, and significant ongoing cost

savings, Council now finds itself at a point where it must act immediately to secure additional General Rate Revenue from 1 July, 2017 by way of the proposed SRV if it is to be both "Fit for the Future" and "Sustainable" in the short, medium and long terms.

A review of Council's FFF Roadmap, Long Term Financial Plan, Asset Management Plans and the proposed SRV/associated allocation of additional revenues to be received, will show that Council has a sound and sustainable Plan to address Council's Asset Maintenance and Asset Renewal needs, including the remaining Infrastructure Backlog in a financially responsible manner over the initial FFF Roadmap period to 30 June, 2020 and then out to 2026. The Plan will achieve these objectives in a way that supports and strengthens the local and regional community, its growth, economic and the social well-being of the Community.

- Why the proposed special variation is the most appropriate option: for example, typically other options would include introducing new or higher user charges and/or an increase in council loan borrowings, or private public partnerships or joint ventures.

The proposed SRV is the most appropriate option for Council to generate the revenues to fund Council's expenditure requirements, as this is the final option now available to Council. As noted above:

Council has already increased its Fees and Charges where possible, and considering the Communities capacity and willingness to pay. Only relatively small further gains could be made in this area. Council already has an example where the Touch Football Competition was moved away from Council owned fields to fields owned by the State Government following a very modest increase in Field Usage Fees;

Council has already introduced new charges where possible, particularly in the Waste Management and Stormwater Management Areas.

As noted above, Council needs recurrent annual revenue to match recurrent annual expenditures in the identified areas, and Loan Borrowings are not considered to be an appropriate option. Further no funding exists to be able to fund the Loan Repayments. That said Council will consider Loan Funding for future long life, one-off Capital Expenditure Projects.

Private public partnerships or Joint Ventures are not an appropriate service delivery method for delivering the Community Service Level and Infrastructure needs identified in this SRV Application.

Council has managed very well over the years, never having previously sought or receiving an SRV since the introduction of Rate Pegging in 1978. Council has however, now reached a point where it is the only remaining option for Council to be able to fund

its recurrent expenditure needs and to be Fit for the Future, ensuring the sustainability and well-being of its Community and the Region into the future.

- How the proposed special variation impacts the Long Term Financial Plan forecasts for the General Fund and how this relates to the need the council identified. Our assessment will also consider the assumptions which underpin the council's Long Term Financial Plan forecasts.

Council updated its Long Term Financial Plan (LTFP) in the preparation of its FFF Roadmap, again in the preparation of the 2016/2017 Operational Plan and Budget and Asset Management Plans, and again in December, 2016. The updated LTFP with the Updated Delivery Plan was placed on Public Exhibition as part of Council's Community Engagement for the proposed SRV.

The December, 2016 LTFP update included the 2017/2018 1.5% Rate Peg and its impacts, the 2016 Valuer General Valuations, the increased State Government Charges mentioned above and their impact on the 2017/2018 Budget, and also the inclusion of the budget figures for 2026/2027 based on the most up to date financial modelling.

LTFP Under Base Case "do nothing" Scenario – No SRV

The Base Case "do nothing" Scenario has been developed on the premise of continuing on Council's existing Revenue Path with no SRV. It reflects Council's modelling of its future financial position based on the current state of play and existing Service and Infrastructure Levels.

The effective result will be that the 2017/2018 and future budgets, do not have sufficient funds to provide services and infrastructure at existing levels and Council will not be "Fit for the Future".

The LTFP Base Case Scenario is based on the following Assumptions:

Revenue Assumptions:

Rates and Annual Charges - this scenario includes the Rate Peg at the IPART determined 1.5% in 2017/2018 and then 2.5% each year for the remainder of the LTFP, being the indicative increase advised by IPART.

Growth in ratable properties has slowed considerably since 2008/09 due to the impact of the Global Financial Crisis. There has been little developer activity in the local area that would indicate that there will be significant growth in new ratable properties in the foreseeable future and a significant number of subdivisions already exist which can service growth needs. Any growth in ratable property numbers will also be largely offset by an equivalent increase in Council's Costs. As such no allowance has been made for a net gain in revenues flowing from growth in ratable properties in the financial modelling.

Annual Charges - have been projected to increase by the following amounts in 2017/2018:

- Sewer 0%
- Water 0%
- Stormwater 0% (set by State Government)

For 2018/2019 and 2019/2020 the above annual charges have been projected to increase on average by a maximum of 1.5%. From 2020/2021 on, these annual charges have been projected to increase on average by 2.5%.

User Charges & Fees and Charges - These revenues for the next 12 months are detailed in Council's Fees and Charges Schedule and Statement of Revenue Policy, which form part of Council's Operational Plan and Budget. The "Base Case" model generally provides for a small 2.5% increase per annum for these revenue sources across the life of the LTFP. It is noted that regulatory fees and charges have shown little movement over the last 10 years, being set by State Government, while discretionary fees represent a small component of total revenue.

General and Specific Purpose Operating Grants - These grants represent a significant proportion of Council's operating revenue. They include the Financial Assistance Grant from the Federal Government which is affected by movements in the Consumer Price Index and Estimated Resident Population.

The Base Case assumes that Council will continue to receive a similar level of grant income to that which presently applies. However in relation to the Financial Assistance Grant (FAGs), Council has provided for a 2% increase on the 2016/2017 grant. This assumes that the Federal Government will remove its current freeze on the Financial Assistance Grants. It is projected that the FAG will continue to grow at a rate of 2% per annum from 2018/2019.

Council has also increased some operational grants on a case by case basis where the continuation of funding is highly likely.

Interest on Investments - This scenario assumes that Council will continue to have a level of invested funds similar to that currently under investment. It is anticipated that there will be little to no growth in interest income across the 10 years of the LTFP due to

a slow rise in interest rates and no growth over time in the quantum of invested funds. It is noted that 10 year borrowing rates currently closely approximate short term rates.

Expenditure Assumptions:

Employee Benefits & On-costs - Employee costs for 2017/18 and future years have been indexed to take into account anticipated Local Government Award movements and Salary System Performance Review progressions. The LTFP reflects an annualised wage increase of 2.8% for the life of the LTFP.

It is noted that Council makes an annual allocation for staff progression within the Salary System as a result of employee performance reviews. However an increasing number of staff are reaching the maximum salary system level (topping out) for their position and will no longer be entitled to any further increase in salary other than those imposed by the Local Government Award. As such, no increase has been allowed for staff movements with the salary system for the life of the LTFP.

This scenario is based on the current staff structure, however only reflects those positions that have actually been filled or approved for recruitment.

Council's commitment to meet its Superannuation obligations was to increase from 1 July, 2013 following the previous Federal Government's decision to increase the superannuation guarantee from 9% to 12% by 2019/20. However the 2014/2015 Federal Budget froze those increases. The current requirements see superannuation paid at a rate of 9.5% until 1 July, 2021 at which time it will increase by 0.5% per year until it reaches 12%.

Council has also reviewed its commitment for those staff who are members of the Local Government Retirement Superannuation Scheme - a defined benefits scheme. This has led to a reduction in the overall superannuation cost as older staff retire and the commitment by Council to this scheme falls away and new staff are engaged under the current 9.5% arrangements.

Borrowings – During 2013/2014 Council lodged an application with the State Government under the Local Infrastructure Renewal Scheme (LIRS) to borrow $2M to fund infrastructure backlog works at the Ashford Water Treatment Plant. The scheme provides for a subsidised interest rate with the State Government reimbursing Council 4% of the loan interest rate. This has allowed Council to borrow those funds at an effective interest rate of 1.4%. These repayments have been included in the scenarios at their actual rate.

During 2014/2015 Council lodged another application with the State Government under the Local Infrastructure Renewal Scheme (LIRS) to borrow $2M to fund infrastructure backlog works at the Inverell Sewer Treatment Plant. The scheme provides for a subsidised interest rate with the State Government reimbursing Council 3% of the loan interest rate. This has allowed Council to borrow those funds at an effective interest rate of 1.16%. These repayments have been included in the scenarios at their actual rate.

The LIRS savings to the LTFP approximate $0.8M.

During 2015/2016 Council borrowed $2M to fund infrastructure works as identified under Council's Waste Management Strategy. Council's "Fit for the Future" status allowed Council to access a pool of State Government Funding administered by NSW TCorp at significantly discounted rates compared to Australia's big 4 banks. This has allowed Council to borrow these funds at an interest rate of 3.02%. This represents a cost saving of $147K over the life of the loan. These repayments have been included in the scenarios at their actual rate.

The total Loan Interest Cost savings Council has achieved over the last four (4) years including the LIRS savings, now totals almost $1M to the benefit of the local Community.

No provision for the movement in Loan Interest Rates has been provided for within the life of the LTFP as all of the above loans are fixed interest loans. The Base Case provides for no additional loans within the life of the LTFP. This will be subject to annual review with it being noted that Loan Funding may be required for the Inverell Pool refurbishment project.

Materials & Contracts – This is one of the largest items on Council's Income Statement. It covers all materials used in operational activities along with major ongoing operational contracts such as the Cleaning contracts.

Budgets in the operational plan reflect all known information in relation to contracts and the LTFP assumes a 2.5% increase in these expenses across the life of the LTFP from 2017/2018. Actual cost increases may in fact be greater than the inflation index.

Depreciation & Amortisation – Council has completed the process of valuing all of its assets classed at "Fair Value" and is now on the "Re-valuation Cycle", where Asset values are reassessed on a regular basis.

It is recognised that the depreciation expense will change over the life of this LTFP. Proposed changes to accounting standards, valuation and depreciation methods are likely to impact on the current estimate of depreciation across the term of the LTFP. Given the level of uncertainty that exists as a result of these proposed changes and the ongoing work being undertaken by Council to increase the accuracy and reliability of its recorded asset data on which depreciation is calculated, only a small increase in depreciation charge has been included across the life of the LTFP.

Other Expenses – This category includes a number of expense items including electricity costs, water and sewerage charges, waste charges etc. In general the LTFP provides for increases in known fixed costs during 2017/2018 and nominal increases for other items. The LTFP then provides that these expenses will increase each year by 2.5% for 2018/19 (in line with the IPART Rate Peg estimate advice).

No allowance has been made within the LTFP for any new charges in relation to an emissions trading scheme or carbon tax.

Sensitivity Analysis:

Long Term Financial Plan contains a range of assumptions, including assumptions about interest rates and the potential effect of inflation on revenues and expenditure. Some of these assumptions have a relatively limited impact, while others can have a major impact on future financial plans. If the assumptions above are found to require update due to un-foreseen events, it will be necessary for Council to reconsider current strategies on expenditure and revenue and realign the LTFP to fund any changes in costs or revenues.

1. Rates and Annual Charges

At the present time, based on IPART advice, the growth in rate revenue from 2018/2019 (excluding any SRV) is projected to increase at the rate of 2.5% per annum. It should be noted that the 1.5% 'rate peg' as announced by the IPART for 2017/2018 did not however match this estimate. This has had a significant impact on Council's long term forecasts and should this trend continue into the future, it will be necessary to revise this major driver in the LTFP. The previous two IPART Rate Pegs were also only 2.3% and 1.8%.

By way of example, each 1.0% of Rate Reg below the estimate equates to approximately $107K per annum, or $1.18M over the life of the LTFP.

2. Financial Assistance Grants

The Federal Government implemented a three (3) year freeze (as shown above) on the indexation of Council's Finance and Assistance Grants from 2014/2015. Council's LTFP provides for a 2% indexation from 2017/2018 and ongoing. Should the Federal Government continue to freeze the Finance and Assistance Grants at the 2014/2015 level, the impact on Council's long term forecasts will be significant into the future and it will be necessary to revise this major driver of the LTFP.

By way of example, each 0.5% of indexation below the estimated 2% equates to approximately $27K per annum, or $276K over the life of the LTFP.

3. Employee Costs

Employee costs are a significant component of the annual budget and these costs are highly sensitive to changes in rates of pay through Local Government State Award negotiations. Council's LTFP provides for a 2.8% per annum wage increase over the life of the LTFP. This increase represents the industry average of recent wage increases. It is noted that a new award will commence from 2017/2018 financial year. Should the negotiated wage increase exceed our estimate in future years it will be necessary to revise this major driver in the LTFP.

By way of example, each 0.5% of additional wage increase above the estimate equates to approximately $65K per annum, or $665K over the life of the LTFP.

LTFP Base Case 'do nothing" Scenario - Financial Results:

The Base Case 'do nothing' Scenario indicates that Council will record consecutive budget deficits increasing from $509K in 2017/2018 to $1,990K in 2026/2027 for a minimum cumulative Deficit over the life of the LTFP of $16.2M in the General Fund and small Surpluses of $23K in the Water and Sewerage Fund. This will very significantly impact the delivery of Services and Infrastructure to the Community.

At the same time no further funding will be able to be provided after 2017/2018 under this scenario to reduce the Road Asset Infrastructure Backlog and the Backlog will in fact start to again rapidly escalate (see FFF benchmarks). It is noted that the Special Rural Road Asset Infrastructure Backlog Program funding provided over 2015/2016 and 2016/2017 has seen Council exhaust its surplus cash held in the Internally Restricted Asset and its Working Capital to the base level, needed to sustain Council's continuing operations. This Base Case also does not provide Council with the ability to address any additional Asset Renewal needs that may arise or to provide for Asset Upgrades/new Assets over the ten year period.

The budget results, based on Council's base case position, are as follows:

General Fund Excluding SRV Amended November, 2016 (Council under this scenario will not be Fit for the Future)

Budget Year	Core Operational Budget Cash (Surplus)/Deficit Excluding SRV $'000	Plus Budget Road Asset Maintenance Shortfall and Joint Industrial Promotions Program $'000	Plus Budget Road Asset Renewal/Backlog Shortfall $'000	SUB-TOTAL $'000	Plus Other Assets Renewal/Upgrade requirements $'000	Total Budget (Surplus)/Deficit Excluding SRV $'000	Cummulative Deficit
2016/17 Current Budget	(2)			(2)		(2)	
2017/18	96	186	230	512	0	512	512
2018/19	158	259	651	1,068	0	1,068	1,580
2019/20	222	360	1,096	1,678	0	1,678	3,258
2020/21	288	427	1,006	1,721	0	1,721	4,979
2021/22	352	459	951	1,762	0	1,762	6,741
2022/23	420	490	895	1,805	0	1,805	8,546
2023/24	489	525	835	1,849	0	1,849	10,395
2024/25	561	594	702	1,857	40	1,897	12,292
2025/26	636	611	500	1,747	200	1,947	14,239
2026/27	858	635	300	1,793	200	1,993	16,232
TOTALS	4,080	4,546	7,166	15,792	440	16,232	
			ACCUMULATED SUB-TOTAL -DEFICT	15,792	ACCUMULATED TOTAL -DEFICT	16,232	

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This Base Case 'do nothing" Scenario demonstrates that cost pressures have now substantially overtaken Council's revenue raising capacity, with Council being one of only few remaining Councils across the State who have not been provided with a Special Rate Variation since 1978, with the average since 2011 being approximately 22%.

While above Rate Peg increases in Council's costs, have been largely met to date from cost savings realised through Council's continuing Operational Efficiency and Effectiveness Program, a point has now been reached where further continuing cost savings/efficiencies will only be relatively small in nature and will negatively impact service levels. As shown in Council's Fit for the Future Benchmarks, Council has reduced its Real Operating Costs per Capita by 24.75% since 2009, a very strong 3.53% per annum efficiency gain. The Base Case "do nothing" Scenario is not an option for Council.

FFF Roadmap Strategy Scenario – 14.25% SRV

The FFF Roadmap Strategy – 14.25% (14.94% cumulative) Special Rate Variation introduced over three years commencing in 2017/2018 plus Rate Peg model (estimated 22.2% total cumulative increase), being the implementation of Council's adopted and IPART approved FFF Roadmap. This model indicates that Council will record a small positive budget result from 2017/2018 on and will be able to continue to deliver its sound existing service and infrastructure levels to the Community, but not increase those service levels. This is at a time where 92% of SRV UTS Survey respondents would like Council to spend the same or more on Services and Infrastructure.

This FFF Roadmap Scenario removes the minimum cumulative $16.2M Deficit of the Base Case 'do nothing' Scenario in the General Fund, turning it to a $13K Surplus, and maintains the $23K Surplus in the Water and Sewerage Funds, placing Council and therefore the community in a long term sustainable position.

The budget results flowing from this scenario are as follows:

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General Fund Including FFF ROADMAP 14.25% (14.94% cumulative) SRV (Council under this scenario will be Fit for the Future)						
Budget Year	Core Operational Budget Cash (Surplus)/Deficit Including SRV $'000	Plus Budget Road Asset Maintenance Shortfall and Joint Industrial Promotions Program $'000	Plus Budget Road Asset Renewal/Backlog Shortfall $'000	SUB-TOTAL $'000	Plus Other Assets Renewal/Upgrade requirements $'000	Total Budget (Surplus)/Deficit Including SRV $'000
2016/17 Current Budget	(2)			(2)		(2)
2017/18	(417)	186	230	(1)	0	(1)
2018/19	(910)	259	651	0	0	0
2019/20	(1,456)	360	1,096	0	0	0
2020/21	(1,434)	427	1,006	(1)	0	(1)
2021/22	(1,411)	459	951	(1)	0	(1)
2022/23	(1,388)	490	895	(3)	0	(3)
2023/24	(1,363)	525	835	(3)	0	(3)
2024/25	(1,338)	594	702	(42)	40	(2)
2025/26	(1,311)	611	500	(200)	200	0
2026/27	(1,137)	635	300	(202)	200	(2)
TOTALS	**(12,165)**	**4,546**	**7,166**	**(453)**	**440**	**(13)**
			ACCUMULATED SUB-TOTAL - SURPLUS	**(453)**	ACCUMULATED TOTAL - SURPLUS	**(13)**

NOTE: Based on Council also receiving a 2.5% p.a. Rate Peg from 2018/2019 and FAGs Grant Indexation at 2%.

How the SRV will be applied – The needs Council has identified:

The $16.25M raised during the period to 2026/2027 from the SRV will be applied to the following identified areas of need as follows:

- $4.08M will be allocated to keeping the General Fund Budget in Balance to ensure existing Service Levels across all Council's General Fund functions are maintained;

- $2.76M to additional maintenance and asset renewal activities on the Rural Road Network to ensure Service Levels are met and the useful lives of the assets are maximised (drainage, bitumen maintenance and patching, roadside slashing, gravel maintenance and patching, vegetation management etc);

- $1.11M to road grading to enable existing Service Levels to be met as discussed at the October, 2016 Committee Meetings;

- $5.10M to the Infrastructure Backlog, being for Heavy Patching, Pavement Stabilisation and Rehabilitation on the Regional Road Network;

- $1.67M for additional Bitumen Reseals and Gravel Resheeting to prevent the Infrastructure Backlog from re-emerging;

- $0.44M for Culvert and Causeway, Drainage, and Footpath Renewals in the long term;

- $0.40M for Urban Asset Renewals;

$0.68M to Maintaining Council's Industry Assistance/Joint Promotions Budget Allocation at a level as close to $150K p.a. as possible; and

- A very small $0.01M Operating Surplus for the Period.

As shown, the largest proportion of the additional revenue, being $10.64M will be allocated specifically to the vast Regional and Shire Road Network, $0.44M to Culvert/Causeway/Drainage/Footpath Renewals, $4.08M will be allocated across all Council's General Fund functions to ensure Council's Existing Service Levels across the Organisation can be maintained, noting that many budget areas have not seen a budgetary increase in the last six years outside of increases in unavoidable fixed costs and $0.68M to maintaining Council's Industry Assistance/Joint Promotions Budget. $0.40M will be allocated over the ten year life of the LTFP to the Urban Areas for additional asset renewals to meet existing Service Levels.

The following widely publicised Table which first appeared in the FFF Roadmap, now updated with the LTFP matters, clearly shows the allocations:

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FIT FOR THE FUTURE ROADMAP - SPECIAL RATE VARIATION (SRV) BUDGET ADJUSTMENTS for 2016/2017 to 2026/2027

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	$	$	$	$	$	$	$	$	$	$	$
CORE BUDGET (SURPLUS)/DEFICIT EXCLUDING SRV	**(1,556)**	**96,740**	**158,060**	**221,790**	**287,650**	**352,430**	**420,030**	**489,750**	**561,770**	**635,920**	**858,075**
(Based on an annual IPART Rate Peg of 1.5% for 2017/2018 and then 2.5% p.a, Indexation of FAG's Grant and major Grants at 2% to 2.5% and continuation of existing Service Levels and required levels of Asset Renewal, but a reduction in $150K Industry Assistance and Development Fund annual allocation to $100K, to account for inadequate 2017/2018 Rate Peg with no other funding sources being available to balance the 2017/2018 Budget.											
ROAD ASSET SPECIFIC RECURRENT ISSUES											
Additional Asset Maintenance and Renewal requirements to meet existing Service Levels across works programs (Rural Road Network)	See Budget	86,000	136,000	186,000	250,000	280,000	308,000	340,000	406,000	430,000	450,000
Restore Joint Industrial Promotions Fund	See Budget	1,929	24,452	74,953	76,827	78,747	80,716	82,734	84,802	86,922	89,093
Less Re-allocation of Funds											
- Minor Roads Gravel Resheeting - North	See Budget	- 830	- 1,680	- 2,550	- 3,450	- 4,370	- 5,310	- 6,270	- 7,260	- 8,270	- 8,480
- Minor Roads Gravel Resheeting - South	See Budget	- 1,110	- 2,240	- 3,400	- 4,590	- 5,810	- 7,060	- 8,340	- 9,650	- 11,000	- 11,280
Road Grading - To meet Existing Services Levels		100,000	102,600	105,270	108,010	110,820	113,690	116,650	119,680	112,790	115,830
SUB-TOTAL	**(1,556)**	**282,729**	**417,192**	**582,063**	**714,447**	**811,817**	**910,066**	**1,014,524**	**1,155,342**	**1,246,362**	**1,493,238**
INFRASTRUCTURE BACKLOG ISSUES											
Road Infrastructure Backlog Program- Heavy Patching/Stabilisation	See Budget	228,000	599,400	1,096,530	875,500	816,070	595,000	535,000	351,500	-	-
TOTAL BUDGET (SURPLUS)/DEFCIT EXCLUDING SRV	**(1,556)**	**510,729**	**1,016,592**	**1,678,593**	**1,589,947**	**1,627,887**	**1,505,066**	**1,549,524**	**1,506,842**	**1,246,362**	**1,493,238**
OTHER IDENTIFIED ROAD ASSET RENEWAL AND UPGRADE NEEDS											
Urban Construction - Additional Asset Renewals required (This budget allocation has not increased since 2010/2011)	See Budget	-	-	-	-	-	50,000	50,000	100,000	100,000	100,000
Asset Renewals - Road Infrastructure Backlog Prevention	See Budget	-	52,000	-	130,000	135,000	250,000	250,000	250,000	400,000	200,000
Asset Renewals Culvert and Causeway/Drainage and Footpath Renewal *(Also covers any additional asset renewals required as identified)*	See Budget	-	-	-	-	-	-	-	40,000	200,000	200,000
TOTAL ADDITIONAL ASSET RENEWALS/UPGRADE	-	-	52,000	-	130,000	135,000	300,000	300,000	390,000	700,000	500,000
Additional SRV Income (14.25% over 3 years from 2017/2018)	-	- 511,897	- 1,068,613	- 1,678,680	- 1,720,647	- 1,763,663	- 1,807,755	- 1,852,949	- 1,899,273	- 1,946,754	- 1,995,423
NET CASH (SURPLUS)/DEFICIT AFTER SRV	**(1,556)**	**(1,168)**	**(21)**	**(87)**	**(700)**	**(776)**	**(2,689)**	**(3,425)**	**(2,431)**	**(392)**	**(2,185)**

This Table from Council's FFF Roadmap and Long Term Financial Plan updated as at December, 2016 now includes the Valuer General's 2016 Revaluation, the IPART 2017/2018 1.5% Rate Peg and the large additional $141K increase in State Government Charges Council has to pay from 2016/2017 which almost wipe out the entire $160.5K 2017/2018 Rate Peg increase. As shown for 2026/2027 the expenditure pattern established under Council's FFF Roadmap up to 2025/2026 will need to be maintained on a continuing basis, however, the quantum of funding available for Road Asset Renewal will start to again decline from 2026/2027, and further remedial action may need to be taken at that time.

As discussed, the expenditures in these areas is required to support Council's Asset Management Plan, to ensure the Roads Infrastructure Backlog is addressed and does not re-occur and that Council's Service Levels are maintained in short, medium and long terms. All of these activities directly impact and strongly support the continued growth and economic and social well-being of the community. The SRV is Council's only remaining option.

3.2 Financial sustainability

The proposed special variation may be intended to improve the council's underlying financial position for the General Fund, or to fund specific projects or programs of expenditure, or a combination of the two. We will consider evidence about the council's current and future financial sustainability and the assumptions it has made in coming to a view on its financial sustainability.

You should explain below:

- The council's understanding of its current state of financial sustainability, its long-term projections based on alternative scenarios and assumptions about revenue and expenditure.
- Any external assessment of the council's financial sustainability (eg, by auditors, NSW Treasury Corporation). Indicate how such assessments of the council's financial sustainability are relevant to supporting the decision to apply for a special variation.
- The council's view of the impact of the proposed special variation on its financial sustainability.

COUNCIL'S CURRENT FINANCIAL POSITION:

Council has, on a continuing basis, operated from a sound financial position achieved on a continuing basis by maintaining strict control over Council's Incomes and Expenditures. It is, however, becoming increasingly difficult to match Council's Revenues and Expenditures, with Expenditures now outgrowing Revenues.

The Audited Annual Financial Statements for 2015/2016 reported that Council's total Operating Income was $40.4M which included $1.8M of grants and contributions provided for capital purposes.

The major sources of income were:

	$'000
Rates & Annual Charges	16,640
User Charges & Fees	5,254
Interest & Investment Revenue	2,639
Other Revenues	1,028
Grants & Contributions - Operating Purposes	12,827
Grants & Contributions - Capital Purposes	1,841
Net Gain from the disposal of assets	150
TOTAL	40,379

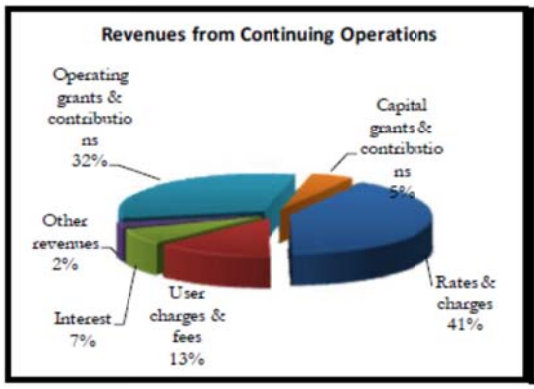
The Audited Annual Financial Statements for 2015/2016 reported that Council's Operating Expenditure was $30.3M (General Fund $23.9M) while Capital Expenditure totalled $15.3M (General Fund $14.9M on the back of Council's Special FFF Roadmap Special Roads Program).

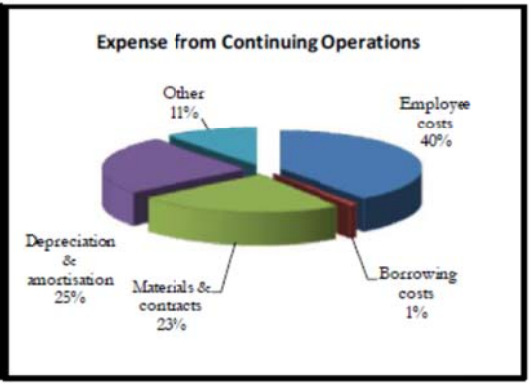
The break-up of the Operating Expenditure was:

	$'000
Employee Benefits & On-Cost	12,073
Borrowing Costs	270
Materials & Contracts	7,133
Depreciation & Amortisation	7,593
Other Expenses	3,212
Net Losses from the disposal of assets	-
TOTAL	30,281

This saw Council record a net Operating Surplus for 2015/2016 of $10.1M (General Fund $7.7M) and a net operating surplus before Capital grants and Contributions of $8.3M (General Fund $ 6.2M). This Operating Surplus was allocated in its entirety and is required on a recurrent basis, to Fund Asset Renewals and Upgrades.

The following Graphs depict the abovementioned information.





The 2015/2016 Audit Report discloses the following key financial indicators:

RATIO	PURPOSE	Water		Sewer		General		
OPERATING PERFORMANCE RATIO	To assess councils ability to meet operating expenditure within operating revenue.	20.8%	14.4%	10.9%	8.2%	19.2%	5.5%	2016 / 2015
OWN SOURCE OPERATING REVENUE	To assess the degree of reliance on external funding sources.	92.8%	90.8%	93.6%	91.4%	55.1%	56.5%	2016 / 2015
UNRESTRICTED CURRENT RATIO	To assess the adequacy of working capital after excluding all restricted assets and liabilities.	21.3	21.49	25.78	22.78	10.09	7.08	2016 / 2015
DEBT SERVICE COVER RATIO	To assess the availability of operaqting cash to service debt including interest, principle and lease payments.	7.49	6.07	4.44	7.61	109.84	105.78	2016 / 2015
OUTSTANDING RATES	To assess the impact of uncollected rates and charges on liquidity and the adequacy of recovery efforts.	4.7%	5.5%	4.6%	5.6%	5.5%	6.0%	2016 / 2015
CASH EXPENSE COVER RATIO	To assess the number of months council can pay its expenses without additional cash inflow.	20.93	20.06	49.77	43.41	23.1	18.96	2016 / 2015

A review of these results shows the Own Source Operating Revenue Ratio which is only 56.5%, highlighting that Council is highly reliant on Grants and other external funding sources, and that its current level of Own Source Revenue is not sufficient.

The Audited Annual Financial Statements for 2015/2016 reported that Council's Combined Fund held total Cash and Investments of $51.834M (All Funds). This figure, however, requires further analysis to determine the actual quantum of these funds that can be allocated to Council's identified areas of need.

As advised to Council and the Community on a continuing basis, and as noted by Council's External Auditor in their November, 2016 Report to Council, significant restrictions exist over Council's Funds and the expenditure of those funds. Council's $51.834M of Investments are restricted as shown in Section 3.1 of this Application. (See breakup of these funds in Section 3.1 of this Application. Council's negotiations with the NSW RMS are progressing in respect of matching funding contributions for the Chester Street/Gwydir Highway Roundabout (Federal Government has committed $1.5M to the Project), and the Mansfield Street and Rosslyn Street Gwydir Highway Intersections.

<u>Council's understanding of its current state of Financial Sustainability</u>

Council has a sound and advanced understanding of its current and future state of financial sustainability. Currently Council understands that it is in a "satisfactory but deteriorating" financial position, which was noted by TCorp in their 2013 Report to Council and which is shown by the FFF Benchmarks. Council understands that it can only remain Fit for the Future, sustainable and continue to deliver its existing Service Levels

and infrastructure in the short, medium and long term if it is allowed to implement its FFF Roadmap in full, including the proposed SRV.

Council has never previously applied for a SRV, seeking rather to exhaust all other avenues of revenue generation and expenditure saving prior to asking its Community to pay more rates. In this regard Council has implemented a range of new fees and charges and increased its Fees and Charges where possible considering the communities capacity and willingness to pay, repurposed Internally Restricted Assets, implemented its ongoing Operational Efficiency and Effective (OEE) Program which has provided major cost savings, sought out additional Grant Funding, and undertaken on a continuing basis service and infrastructure reviews. For many years Council effectively provided large subsidies into its annual Service Delivery and Infrastructure Programs from interest on investment income.

While Council has undertaken service and infrastructure reviews and deleted some existing services and infrastructure over time, Council has been largely careful not to become involved in service and infrastructure provision areas best served by other private or government organisations.

As noted above, in strengthening Council's current Financial Position Council has undertaken a review of its Service Delivery and Legislative compliance needs. As a result Council has:

o reverted to providing its Waste Management Functions, specifically Waste Collection and Waste Facility Management, by day labour with Council owned Plant and Equipment. This has avoided the significant Commercial Waste Contract cost increases being experienced by other Council's needing to be passed onto the Community;

o Following an extensive review, sold the Inverell Regional Saleyards to a specialist private Saleyards Operator. The net $2.14M of funds remaining after the sale were allocated to the Road Asset Infrastructure Backlog Program;

o Undertaken a review of Council's Land Bank, Council undertook to sell a number of surplus marketable properties with the proceeds being utilised to fund asset renewals. During this review it was also identified that two reserve areas being Bonshaw Weir and Well's Crossing were in fact owned by Local Land Services and Council discontinued maintenance of these areas at a saving of 18K p.a;

o Following a review of Library Services, Council has reduced the Library Opening hours to normal business hours and introduced new technologies. This has directly resulted in the annual Library Budget reducing from $1M p.a. in 2012/2013 to an estimated $0.75M in 2017/2018 with these cost savings of $250K being directed to unavoidable cost increases in other areas, particularly asset maintenance and renewal;

o In addition to these matters Council has sold all obsolete Plant, Materials and Equipment and continues this practice allocating these funds into the upgrade of required equipment with the latest technology;

o Council has and continues to encourage local Community Groups and Service Clubs to manage and maintain a range of local facilities with limited or no Council Financial support, or in partnership with Council. These facilities include the Inverell Pioneer Village and National Transport Museum, Inverell Rugby Park, Kamilaroi Oval, the Inverell Gun and Rifle Clubs, Lion's Park, and the significant number of Village Halls and Reserves;

o Council has established a Policy of continuously reviewing its Road Classifications based on Road Usage Patterns. This has resulted in Council no longer maintaining some sections of Roads which are solely contained within and only service expanded Rural Properties and National Park Areas. The Cost savings have been then utilised for Road Maintenance activities on higher usage roads, particularly those roads which have seen an expansion in Heavy Transport use. In respect of Heavy Transport use Council receives ongoing requests to have further Rural Roads opening up to B-Double access, however, Council has had to deny these requests to this point as Council has not had funding available to be able to consider these requests which result in Road Upgrade costs and a higher maintenance burden.

Without the proposed SRV – being the Base Case "do nothing" Scenario the following FFF Benchmarks are achieved over the next ten years:

General Fund - Excluding SRV

RATIO	BENCHMARK	CURRENT BUDGET	PROPOSED BUDGET									
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Debt Service Cover Ratio	Greater than 2	24.08	32.65	32.45	32.02	31.93	31.70	31.53	31.50	31.43	31.53	TBA
Own Source Operating Revenue Ratio	Greater than 60% average over 3 years	55.87%	60.24%	60.26%	60.25%	60.33%	60.42%	60.51%	60.63%	60.72%	60.87%	61.00%
Operating Performance Ratio	Greater or equal to break even average over 3 years	0.15	0.03	0.03	0.03	0.03	0.00	0.02	0.02	0.02	0.02	0.00
Cash Expense Cover Ratio	Greater than or equal to 3 months	29.07	21.49	20.02	18.30	16.39	15.64	13.77	12.61	11.40	10.30	9.39
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	229.30%	176.35%	193.38%	187.58%	204.03%	150.86%	211.76%	178.70%	185.70%	183.25%	185.60%
Infrastructure Backlog Ratio	Less than 2%	1.44%	1.48%	1.56%	1.63%	1.76%	1.89%	2.08%	2.07%	2.10%	2.60%	2.88%
Asset Maintenance Ratio	Greater than 100% average over 3 years	101.50%	97.16%	96.47%	95.84%	95.06%	94.76%	94.50%	94.22%	93.96%	93.53%	93.43%
Real Operating Expenditure Per Capita Result	A decrease in Real Operating Expenditure per capita over time	1.1442	1.1304	1.1180	1.1090	1.0994	1.0901	1.0792	1.0696	1.0614	1.0522	1.0456
Debt Service Ratio	equal to 20% average over 3 years	0.86%	0.91%	0.89%	0.87%	0.85%	0.84%	0.82%	0.80%	0.79%	0.77%	0.00%

(The FFF Benchmark Graphs for these Indicators start at page 31 of the LTFP)

As shown under the No SRV Option Council cannot meet the required FFF Benchmarks and its Financial Position deteriorates and its sustainability is compromised. This deterioration commences from 2017/2018, accelerates to 2019/2020 and then moves at a slower rate after that time.

As previously indicated this deterioration does not occur when the FFF Roadmap 14.25% SRV is implemented in conjunction with a continuation of Council's OEE Program and ongoing sustainability strategies.

Factors Affecting Council's Financial Position

The following matters are highlighted as placing Council in the position where it requires the proposed SRV to be sustainable in the short, medium and long term, and to be able to deliver the required Services and Infrastructure for the Inverell Shire Community to be a strong, resilient, healthy and growing regional Community:

A. **Increases in Council Costs above the annual rate peg** – The McKell Institute Report - September, 2016 states that local government expenditure has increased **7.3%** per annum for the past 20 years (146% cumulative). The average Rate Peg over the same period has been only **2.94%** per annum (58.8% cumulative) - **Difference 87.2%.**

The McKell Institute recommend that "Rate Pegging be abandoned as a matter of priority and recognise that it is unreasonable to believe that the solution is larger intergovernmental grants as other levels of Government struggle with their own funding issues. The report finds that the taxation limits (i.e. rate capping) which now operate in New South Wales and Victoria have a number of harmful effects, as they lower levels of efficiency, lower rates of infrastructure renewals, increase debt and increase levels of inter-jurisdictional inequity".

Supporting this, it is advised that Long Term Financial modelling conducted since 2009, has consistently indicated that by 2017/2018, increases in Council's costs would outstrip increases in Council's Rate Revenues by a minimum of 5.0% or $525K p.a. even after the 3.53% p.a. Efficiency Gains. (The Efficiency Gains have now largely reached their end – Services are now being impacted in a negative manner. As advised to the Council the majority of Council's Budget allocations have not increased in the last six (6) years outside of increases in unavoidable fixed costs.

The IPART approved Rate Peg for 2017/2018 is only 1.5%.

B. **The IPART determined Rate Peg - Local Government Cost Index calculation (2010) disadvantages Rural Council's that have a substantial Road Network and a low Population Density**. Inverell, being a Group 11 Council, has a population density of 2 people per square km being 50% of the Group 11 average of 4, Council has 2,134 km of Roads being 47% more Roads, than the Group 11 Council average of 1,451 km. (IPART has now partly addressed this issue in the 2017/2018 LGCI – Asset Renewal for Roads etc now 19.6% of the index, has been only 13.7% of the Index since 2010). Council on average spends approximately 37% of its Budget on Roads and Road related infrastructure.

C. **The 2016/2017 and 2017/2018 IPART Rate Peg do not reference the NSW Local Government State Award Increases**. IPART provides for a 2.4% increase in employee costs based on the NSW ABS wage price index, contributing 41.8% of the index. The Local Government State Award increase for 2016/2017 is 2.8%, meaning that IPART Rate

Peg calculation has deprived Council of $21K, in income, being equivalent to a Rate increase of **0.2%. ($12.5M x 0.4 x 0.41 = $21K).** This is an ongoing issue for 2017/2018 and beyond.

D. **Freeze on the indexation of Council's Finance and Assistance Grants** – the Federal Government 3 year freeze on the indexation of Council's FAGs Grants was implemented in 2014/2015. The cost to the 2016/2017 Budget is $436K, being equivalent to a 4.15% Rate Increase. This is an annual ongoing cost to Council's Annual Budgets. The cumulative cost to the end of 2016/2017 will be $891K. The National total is $1B.

Further major budgetary issues will arise if the FAGs indexation is not restored in 2017/2018. If indexation in line with the CPI is not restored this will cost Council approximately $165K in the 2017/2018 Budget in addition to the $436K per annum already lost.

E. **Reduction in Interest on Investment Income** - flowing from record low interest rates and the draw down of Council's Investments for the Special FFF Rural Roads Asset Renewal Programs and other Infrastructure Programs. The Interest Budget has reduced to $879K in 2016/2017 (General Fund), a $500K reduction equating to a 4.76% Rate increase. The interest income funds has always been utilised to subsidise the recurrent operational budget and the annual Works Budget.

F. **Council's decision in 1987 not to take the 3.0% Rate Peg** - Council following the 1987 Council Election where the newly formed Inverell Ratepayers Association gained control of the Council, declined to take the 3.0% Rate Peg, during a time of high inflation. This decision has cost Council $9.0M in foregone Rate Revenue since 1987. The Office of Local Government in their 1992 Review of Council, were highly critical of this decision by the then Council. This 1987 decision will cost Council $536K in foregone Rate Income in 2016/2017 being equivalent to a 5.52% Rate Increase. (the proposed 14.25% really therefore only equates to a 8.73% Rate Increases on top of what Council should have already been levying).

G. **Cost Shifting from the State and Federal Government** as advised by Local Government NSW, is now estimated to be costing Council $1.6M p.a. (equivalent to a 14.95% SRV) or 6% of its Total Revenue.

H. **Pensioner Rate Rebates** - It is noted that over a number of years the eligibility requirements for access to Pensioner Rate Rebates have also been changed by the Federal Government increasing the number of eligible Ratepayers. This has come at a cost to Council with **Pensioner Rebates now costing the General Fund $200K per annum after the State Government Subsidy, or 1.9% of Council's General Rate Income.**

I. **Government Charges** – In a furthering of Cost Shifting, the NSW Rural Fire Service, State Water and the NSW Auditor General have increased their charges for 2016/2017 and beyond as follows:

a. Rural Fire Service Charges $55K p.a. from 2016/2017

b. State Water Flood Gauge Maintenance Charges $50K p.a. from 2016/2017

c. NSW Auditor General and additional increase in external Audit Charges estimated at $36K p.a. from 2016/2017

Council has raised these matters with the Local State Member, noting that these items at a total cost of $141K p.a. almost entirely erode the 1.5% 2017/2018 Rate Peg which generates only $160.5K.

The cumulative impact of these matters equates to a 53% Rate increase or $4.94M p.a. however, Council's FFF Roadmap and this SRV Application only seeks 14.25% (14.94% cumulative plus Rate Peg SRV (minimum increase to meet FFF Benchmarks and existing service delivery and infrastructure needs) meaning that Council will still have delivered very real and substantial efficiency and effectiveness gains and benefits to the community and the region.

COUNCIL'S LONG TERM FINANCIAL PROJECTIONS:

As noted earlier in this Application, Council has prepared Long Term Projections and its LTFP on its Base Case "do nothing" Scenario as shown above, and also on its FFF Roadmap Strategy Scenario – 14.25% SRV.

The FFF Roadmap Strategy – 14.25% (14.94% cumulative) Special Rate Variation plus Rate Peg model (estimated 22.2% total cumulative increase, being the implementation of Council's adopted and IPART approved FFF Roadmap, indicates that Council will record a small positive budget result from 2017/2018 on and will be able to continue to deliver its sound existing service and infrastructure levels to the Community, but not increase those service levels. This is at a time where 92% of SRV UTS Survey respondents would like Council to spend the same or more on Services and Infrastructure.

This FFF Roadmap Scenario removes the minimum cumulative $16.2M Deficit of the Base Case 'do nothing' Scenario in the General Fund, turning it to a $13K Surplus, placing Council and therefore the community in a short, medium and long term sustainable position.

Based on the latest available data, the following FFF Benchmarks are achieved under the proposed SRV, with Council being Fit for the Future on a continuing basis placing Council in a Sound Financial Position:

General Fund - Including the proposed 14.25% (14.94% cumulative) SRV plus Rate Pegs

RATIO	BENCHMARK	CURRENT BUDGET	PROPOSED BUDGET									
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Performance Ratio	Greater or equal to break even average over 3 years	0.15	0.05	0.07	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.07
Own Source Operating Revenue Ratio	Greater than 60% average over 3 years	55.87%	60.99%	61.77%	62.53%	62.62%	62.72%	62.81%	62.93%	63.02%	63.16%	63.30%
Debt Service Ratio	Greater than 0% and less than or equal to 20% average over 3 years	0.86%	0.89%	0.86%	0.82%	0.81%	0.79%	0.77%	0.76%	0.74%	0.72%	0.00%
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	229.30%	181.33%	207.60%	211.47%	225.83%	171.38%	230.96%	196.51%	200.53%	193.64%	191.64%
Asset Maintenance Ratio	Greater than 100% average over 3 years	101.50%	101.50%	102.00%	100.50%	100.50%	101.00%	101.50%	102.00%	102.00%	101.50%	101.00%
Infrastructure Backlog Ratio	Less than 2%	1.44%	1.37%	1.36%	1.18%	0.87%	0.63%	0.40%	0.24%	0.09%	0.00%	0.00%
Real Operating Expenditure Per Capita Result	A decrease in Real Operating Expenditure per capita over time	1.1142	1.1304	1.1180	1.1090	1.0994	1.0901	1.0792	1.0696	1.0614	1.0522	1.0456
OTHER PERFORMANCE RATIOS												
Cash Expense Cover Ratio	Greater than or equal to 3 months	29.07	21.82	21.03	20.31	19.36	19.54	18.59	18.30	17.93	17.64	17.58
Debt Service Cover Ratio	Greater than 2	24.08	34.84	37.02	39.19	39.30	39.25	39.25	39.42	39.57	39.89	TBA

(The FFF Benchmark Graphs for these Indicators start at page 42 of the LTFP)

This alternate Scenario only deviates from the Base Case 'do nothing" Scenario in respect of the proposed SRV. This scenario is based on Council's adopted and IPART approved FFF Roadmap and the required achievement of the FFF Benchmarks by 30 June, 2020 and then on a continuing basis. The FFF Roadmap requires a permanent increase (above the annual rate peg amount) in Council's General Fund Rate income by the following:

- 2017/2018 - 4.75%
- 2018/2019 - 4.75%
- 2019/2020 - 4.75%

(Total Cumulative increase of the SRV is 14.94% or 22.2% with the Rate Peg included)

The scenario includes a nil increase in the Waste Management, Water and Sewerage Annual Charges for 2017/2018, a maximum 3.0% total increase in these charges for 2018/2019 and 2019/2020 and 2.5% p.a. increase after that time. This scenario includes the Rate Peg at the IPART determined 1.5% in 2017/2018 and then 2.5% each year for the remainder of the LTFP, being the indicative increase advised by IPART.

This scenario is essentially represented as an additional layer added to the Base Case 'do nothing' Scenario in the LTFP. An additional amount of revenue is generated under this scenario with this revenue being utilised to address shortfalls in asset maintenance, infrastructure renewals and the infrastructure backlog program largely for Road Assets. Neither of the Scenario's provide for new discretionary funding.

As such the LTFP development assumptions outlined above in this Application for the Base Case 'do nothing' Scenario are equally applicable to this FFF Roadmap Strategy Scenario. The points of difference lie directly in the following areas:

Rates and Annual Charges - This scenario provides for an increase in the amount of rates levied by Council. The proposal special rate variation will generate approximately the following additional amounts each year:

- 2017/18 $ 511,897
- 2018/19 $ 1,068,613
- 2019/20 $ 1,678,680
- 2020/21 $ 1,720,647
- 2021/22 $ 1,763,663
- 2022/23 $ 1,807,755
- 2023/24 $ 1,852,949
- 2024/25 $ 1,899,273
- 2025/26 $ 1,946,754
- 2026/27 $ 1,995,423

TOTAL $16,245,654

Expenditures - The additional $16.25M raised during the period to 2026/2027 will be expended as follows:

- $4.08M will be allocated to keeping the General Fund Budget in Balance to ensure existing Service Levels across all Council's General Fund functions are maintained;

- $2.76M to additional maintenance and asset renewal activities on the Rural Road Network to ensure Service Levels are met and the useful lives of the assets are maximised (drainage, bitumen maintenance and patching, roadside slashing, gravel maintenance and patching, vegetation management etc);

- $1.11M to road grading to enable existing Service Levels to be met as discussed at the October, 2016 Committee Meetings;

- $5.10M to the Infrastructure Backlog, being for Heavy Patching, Pavement Stabilisation and Rehabilitation on the Regional Road Network;

- $1.67M for additional Bitumen Reseals and Gravel Resheeting to prevent the Infrastructure Backlog from re-emerging;

- $0.44M for Culvert and Causeway, Drainage, and Footpath Renewals in the long term;

- $0.68M to restore Council's Industry Assistance/Joint Industrial Promotions Program

- $0.40M for Urban Asset Renewals; and

- A very small $0.01M Operating Surplus for the Ten Year Period.

As shown in this Scenario, the largest proportion of the additional revenue, being $10.64M will be allocated specifically to the Regional and Shire Road Network, $0.44M to Culvert/Causeway/Drainage/Footpath Renewals, $4.08M will be allocated across all Council's General Fund functions to ensure Council's Existing Service Levels across the Organisation can be maintained, noting that many budget areas have not seen a budgetary increase in the last six years outside of increases in unavoidable fixed costs. $0.40M will be allocated over the ten year life of the LTFP to the Urban Areas for additional asset renewals.

EXTERNAL FINANCIAL ASSESSMENTS:

As noted in Section 2.1, Council has been subject to a number of external financial assessments which have aided its decision to apply for the proposed SRV. These are as follows:

NSW Treasury Corporation Review 2013

Council had TCorp analyse its financial position in 2012. TCorp concluded in their 2013 Report that "The Council has been well managed over the review period". That said TCorp noted in their observations that:

- Council has spent less than required on maintenance in two of the last three years;

- The majority of the infrastructure backlog is from road related assets;

- Council's financial flexibility has been acceptable with the Operating Ratio above the group average and Own Source Operating Revenue Ratio marginally below the Group average;

- Council's Debt Service Cover Ratio (DSCR) and Interest Cover Ratio are above the group average and above the benchmark. In the medium term Council's forecast ratios are expected to remain above the group averages and benchmarks;

- Council was in a sound liquidity position which is expected to continue in the medium term;

- Council's performance in terms of its Building and Infrastructure Asset Renewal Ratio and Infrastructure Backlog Ratio have been weaker than the benchmarks;

• Asset renewal performance has improved in recent years to be above the group average;

• Council's Asset Maintenance Ratio and Capital Expenditure Ratio have been in line with the group averages and benchmarks.

These key observations pointed to the fact that while Council was financially sound, issues around the level of Council's Own Source Revenue and consequently Asset Renewal Expenditure and the Infrastructure Backlog were starting to emerge. These observations were in line with the trends identified in Council's 2010 – 2020 Long Term Financial Planning and Asset Management Planning.

TCorp in their Report noted the following as being Specific Risks to Council's ongoing operations and sustainability:

• Environmental and Natural Disasters - Inverell has had four natural disaster declarations in the last three years. They have had three floods and a bushfire. Council's management of this risk is substantially reliant on being able to receive both State and Federal funding under various "natural disaster" funds.

• Deterioration of Council Infrastructure Assets - Over the last three years the infrastructure backlog has increased. If this trend continues it may be reflected in lower quality infrastructure assets. Council has spent an increasing amount on asset maintenance and renewal in an attempt to reverse this trend.

• Expenses Growth - Council had substantial expenses growth in 2011 that was not matched by revenue growth. **Given Council is subject to the rate peg, it is unlikely that revenue will be able to grow in line with expenses growth.** Therefore, Council will need to manage expenses growth going forward.

As shown in the 2012 TCorp Financial Assessment and 2013 follow up report by TCORP, Council was approaching a point where its Revenues could no longer match its Expenditures under the Rate Peg limit. TCorp confirmed Council's view, that in the medium term Council would need to consider increasing General Revenues through a Special Rate Variation.

OLG Asset Management Review 2013:

In 2013 the Office of Local Government undertook an Asset Management Audit of Council as part of their council-by-council Audit of the NSW local government infrastructure backlog. The Office of Local Government rated each Councils Asset Management Program. Council's Asset Management Program was rated as being "Moderate". This resulted from Council not being able to fully fund its asset maintenance requirements during the review period (ie 2009 to 2012) and the existence of an Infrastructure Backlog. While Council was able to repurpose some of its existing Internally Restricted Assets to address this matter, in the short term to the end of 2016/2017, the point has now been reached where Council is not able to adequately resource its Asset maintenance and Asset Renewal needs from 2017/2018 on without

running large unsustainable Deficit Budgets. It is a FFF requirement that Council's must fully fund their asset maintenance and asset renewal requirements on a continuing basis.

COUNCIL'S VIEW OF THE IMPACT OF THE PROPOSED SRV ON ITS FINANCIAL SUSTAINABILITY:

Council is of the view that the proposed 14.25% SRV is the only option remaining to Council for it to be sustainable, Fit for the Future, and for it to be able to provide its Services and Infrastructure at the level required by its Community to ensure its economic and social well-being into the future. Council is of the view that its level of sustainability has a major impact on the regions growth and well-being.

The proposed 14.25% SRV (14.94% cumulative plus Rate Peg for a total cumulative total of 22.2%) is the minimum SRV that can be applied in ensuring that Council is sustainable in the short, medium and long terms. This view is confirmed by the FFF Benchmarks, Council's LTFP, Council's Asset Management Plans and supporting documents. The proposed SRV is low in comparison with the SRV's granted to other Council's in the region, and even with the SRV, Council would still have the lowest total General Rates of the other large Councils in the region by a significant margin.

Council has conducted extensive modelling in this matter, to see if the proposed SRV can be delayed or reduced, however, any delay in introducing the proposed SRV or reduction in the SRV amount, results in Council's ongoing Service level and Infrastructure needs not being met, along with the FFF Benchmarks not being met. Council will exhaust the remaining FFF Roadmap Special Road Asset Infrastructure Program Funding in late 2016/2017/early 2017/2018 and the road assets will start to deteriorate after this time if the SRV is not granted. This will have an immediate and lasting negative flow on effect to the community.

Noting the ongoing "Wild Weather/Major Storms" being experienced, Council has already expended $0.4M to restore Flood Damage in the first six months of 2016/2017 without any Government assistance being provided. This has had to be funded by reducing/delaying maintenance and asset renewal activities in other areas which will have a flow on negative affect on the FFF Asset Management Benchmarks and Council's sustainability.

While some further minor current Service Level and Infrastructure delivery cost savings are expected to be achieved over time, these cost savings will no doubt need to be redirected to other areas of need to aid Council's ongoing sustainability. As noted above Council is coming under increasing pressure to open up a greater number of its Rural Roads to B-Double Access. The recent opening up of a number of roads around Inverell to Road Trains and AB Triples to meet substantial industry needs has already resulted in higher maintenance costs on those roads. The current practice of IPART discounting the

annual Rate Peg by a productivity factor does not assist Council in this matter, with Council's survey results clearly showing that the Community would like Council to spend more on services and infrastructure.

In summary the proposed SRV is the only remaining option available, that will generate the recurrent quantum of funds available for Council to be sustainable in the short, medium and long term, and for Council to be Fit for the Future.

3.3 Financial indicators

How will the proposed special variation affect the council's key financial indicators (General Fund) over the 10-year planning period? Please provide, as an addendum to the Long Term Financial Plan, an analysis of council's performance based on key indicators (current and forecast) which may include:

- Operating balance ratio excluding capital items (ie, net operating result before capital grants and contributions as percentage of operating revenue before capital grants and contributions).
- Unrestricted current ratio (the unrestricted current assets divided by unrestricted current liabilities).
- Rates and annual charges ratio (rates and annual charges divided by operating revenue).
- Debt service ratio (principal and interest debt service costs divided by operating revenue excluding capital grants and contributions).
- Broad liabilities ratio (total debt plus cost to clear infrastructure backlogs as per Special Schedule 7 divided by operating revenue).
- Asset renewal ratio (asset renewals expenditure divided by depreciation, amortisation and impairment expenses).

FINANCIAL INDICATORS:

The following Table shows the abovementioned financial indicators for the General Fund over the LTFP ten year planning window. As shown a number of the financial indicators for the Base Case "do nothing" Scenario, being a continuation of Council's OEE Program etc but no SRV clearly show that Council is not sustainable in the short, medium or long term without the 14.25% SRV. While Council does not normally place any great significance on the Unrestricted Current Ratio, as it does not include Internally Restricted Assets, it can be clearly seen from the Table that under the Base Case Scenario Council becomes insolvent. In eight of the ten years Council cannot adequately fund maintenance activities which will severely impact its Infrastructure Backlog, service and infrastructure levels and consequently the economic and social well-being of the community.

Financial Indicators - General Fund Excludes SRV	Actual 2015/16	Estimated 2016/17	Estimated 2017/18	Estimated 2018/19	Estimated 2019/20	Estimated 2020/21	Estimated 2021/22	Estimated 2022/23	Estimated 2023/24	Estimated 2024/25	Estimated 2025/26	Estimated 2026/27
Operating Balance Ratio Excluding Capital Items	20%	16%	4%	5%	4%	5%	2%	5%	3%	3%	3%	2%
Unrestricted Current Ratio	10.09	5.04	4.95	4.68	4.20	3.70	3.17	2.60	2.00	1.36	0.73	-0.07
Rates & Annual Charges Ratio (Excludes Grants)	38.98%	46.04%	50.00%	49.46%	49.82%	49.69%	51.00%	50.08%	50.96%	50.92%	51.23%	51.47%
Debt Service Ratio	0.00	0.008	0.009	0.009	0.009	0.008	0.008	0.008	0.008	0.008	0.008	0.000
Broad Liabilities Ratio	0.22	0.24	0.26	0.25	0.25	0.26	0.27	0.27	0.27	0.28	0.31	0.33
Asset Renewal Ratio	1.81	1.33	0.89	0.90	0.91	0.92	0.93	0.95	0.96	0.99	1.00	1.01

(From LTFP Page 66)

In the country it is a fact in many instances that if Council does not provide a service or infrastructure the community must go without, as it is not just an option to drive to the next suburb to go to the playground, swimming pool or otherwise. Council must be in a sound financial position to provide the core and other services the community requires.

Financial Indicators - General Fund Includes 14.25% SRV	Actual 2015/16	Estimated 2016/17	Estimated 2017/18	Estimated 2018/19	Estimated 2019/20	Estimated 2020/21	Estimated 2021/22	Estimated 2022/23	Estimated 2023/24	Estimated 2024/25	Estimated 2025/26	Estimated 2026/27
Operating Balance Ratio Excluding Capital Items	20%	16%	6%	9%	10%	10%	8%	10%	9%	9%	9%	8%
Unrestricted Current Ratio	4.98	5.04	5.10	5.17	5.24	5.32	5.39	5.48	5.56	5.65	6.28	6.42
Rates & Annual Charges Ratio (Excludes Grants)	38.98%	46.04%	50.95%	51.34%	52.65%	52.53%	53.83%	52.91%	53.79%	53.76%	54.06%	54.31%
Debt Service Ratio	0.00	0.008	0.009	0.008	0.008	0.008	0.008	0.008	0.007	0.007	0.007	0.000
Broad Liabilities Ratio	0.22	0.24	0.24	0.22	0.19	0.14	0.10	0.07	0.04	0.02	0.00	0.00
Asset Renewal Ratio	1.81	1.33	0.92	0.99	1.08	1.07	1.07	1.08	1.08	1.08	1.09	1.07

(From LTFP Page 71)

Under the FFF Roadmap 14.25% SRV Scenario, however, all of these Financial Indicators are kept at a sound level. As shown, however, Council is still very reliant on external funding sources which are beyond its ability to control, for almost 50% of it income. This has and continues to negatively impact Council's sustainability, noting the recent and

ongoing impacts of the Federal Governments freeze on the Finance and Assistance Grant.

As shown in Section 3.2 the following FFF Benchmarks/Financial Indicators are achieved under the two options as detailed in the LTFP (pages 31 and 42):

General Fund - Excluding SRV

RATIO	BENCHMARK	CURRENT BUDGET	PROPOSED BUDGET									
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Debt Service Cover Ratio	Greater than 2	24.08	32.65	32.45	32.02	31.93	31.70	31.53	31.50	31.43	31.53	TBA
Own Source Operating Revenue Ratio	Greater than 60% average over 3 years	55.87%	60.24%	60.26%	60.25%	60.33%	60.42%	60.51%	60.63%	60.72%	60.87%	61.00%
Operating Performance Ratio	Greater or equal to break even average over 3 years	0.15	0.03	0.03	0.03	0.03	0.00	0.02	0.02	0.02	0.02	0.00
Cash Expense Cover Ratio	Greater than or equal to 3 months	29.07	21.49	20.02	18.30	16.39	15.64	13.77	12.61	11.40	10.30	9.39
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	229.30%	176.35%	193.38%	187.58%	204.03%	150.86%	211.76%	178.70%	185.70%	183.25%	185.60%
Infrastructure Backlog Ratio	Less than 2%	1.44%	1.48%	1.56%	1.63%	1.76%	1.89%	2.08%	2.07%	2.30%	2.60%	2.88%
Asset Maintenance Ratio	Greater than 100% average over 3 years	101.50%	97.16%	96.47%	95.84%	95.06%	94.76%	94.50%	94.22%	93.56%	93.53%	93.43%
Real Operating Expenditure Per Capita Result	A decrease in Real Operating Expenditure per capita over time	1.1442	1.1304	1.1180	1.1090	1.0994	1.0901	1.0792	1.0696	1.0614	1.0522	1.0456
Debt Service Ratio	equal to 20% average over 3 years	0.86%	0.91%	0.89%	0.87%	0.85%	0.84%	0.82%	0.80%	0.79%	0.77%	0.00%

Council is not Fit for the Future under the Base Case Scenario.

General Fund - Including the proposed 14.25% (14.94% cumulative) SRV plus Rate Pegs

RATIO	BENCHMARK	CURRENT BUDGET	PROPOSED BUDGET									
		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Performance Ratio	Greater or equal to break even average over 3 years	0.15	0.05	0.07	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.07
Own Source Operating Revenue Ratio	Greater than 60% average over 3 years	55.87%	60.99%	61.77%	62.53%	62.62%	62.72%	62.81%	62.93%	63.02%	63.16%	63.30%
Debt Service Ratio	Greater than 0% and less than or equal to 20% average over 3 years	0.86%	0.89%	0.86%	0.82%	0.81%	0.79%	0.77%	0.76%	0.74%	0.72%	0.00%
Building & Infrastructure Asset Renewal Ratio	Greater than 100% average over 3 years	229.30%	181.33%	207.60%	211.47%	225.83%	171.38%	230.96%	196.51%	200.53%	193.64%	191.64%
Asset Maintenance Ratio	Greater than 100% average over 3 years	101.50%	101.50%	102.00%	100.50%	100.50%	101.00%	101.50%	102.00%	102.00%	101.50%	101.00%
Infrastructure Backlog Ratio	Less than 2%	1.44%	1.37%	1.36%	1.18%	0.87%	0.63%	0.40%	0.24%	0.09%	0.00%	0.00%
Real Operating Expenditure Per Capita Result	A decrease in Real Operating Expenditure per capita over time	1.1142	1.1304	1.1180	1.1090	1.0994	1.0901	1.0792	1.0696	1.0614	1.0522	1.0456
OTHER PERFORMANCE RATIOS												
Cash Expense Cover Ratio	Greater than or equal to 3 months	29.07	21.82	21.03	20.31	19.36	19.54	18.59	18.30	17.93	17.64	17.58
Debt Service Cover Ratio	Greater than 2	24.08	34.84	37.02	39.19	39.30	39.25	39.25	39.42	39.57	39.89	TBA

Council is Fit for the Future under the FFF Roadmap 14.25% SRV plus Rate Peg Scenario. As shown Council's Own Source Revenue Ratio improves over its Rate and Annual Charges Ratio, with the addition of the Finance and Assistance Grant. As stated, however, not even the level of the Finance and Assistance Grant is assured.

These financial indicators, however, and the proposed SRV are based on Council maintaining its existing Service Levels and Infrastructure, and do not account for the 55% of survey respondents who would like Council to "spend a little or a lot more" on services and infrastructure.

3.4 Contribution plan costs above the cap

You should complete this section if the proposed special variation seeks funding for contributions plan costs above the development contributions cap. Otherwise, leave this section blank.

Please explain how the council has established the need for a special variation to meet the shortfall in development contributions.

For costs above the cap in contributions plans, a council must provide:[1]

- a copy of the council's section 94 contributions plan
- a copy of the Minister for Planning'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 use, and
- any reference to the proposed contributions (which were previously to be funded by developers) in the council's planning documents (eg, Long Term Financial Plan and Asset Management Plan AMP.

Not Applicable

4 Assessment criterion 2: Community awareness and engagement

Criterion 2 in the Guidelines is:

> *Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. IPART's*

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

fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

Our fact sheet on the requirements for community awareness and engagement is available on the IPART website.[2]

In responding to this criterion, the council must provide evidence that:

- it has consulted and engaged the community about the proposed special variation using a variety of engagement methods and that the community is aware of the need for, and extent of, the requested rate increases
- it provided opportunities for input and gathered input/feedback from the community about the proposal, and
- the IP&R documents clearly set out the extent of the requested rate increases.

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

- the proposed cumulative special variation rate increases including the rate peg for each major rating category (in both percentage and dollar terms)
- the annual increase in rates that will result if the proposed special variation is approved in full (and not just the increase in daily or weekly terms)
- the size and impact of any expiring special variation (see Box 4.1 below for further detail), and
- the rate levels that would apply without the proposed special variation.

More information about how the council may engage the community is to be found in the Guidelines, the IP&R manual and our fact sheet.

2 https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-special-variation-or-minimum-rate-increase

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

The council's application should show how you have explained to its community:

- There is a special variation due to expire at the end of the current financial year or during the period covered by the proposed special variation. This needs to include when the expiring special variation was originally approved, for what purpose and the percentage of (General Fund) general income originally approved.
- The corresponding percentage of general income that the expiring special variation represents for the relevant year.
- Whether the temporary expiring special variation is being replaced with another temporary or a permanent increase to the rate base.
- The percentage value of any additional variation amount, above the rate peg, for which the council is applying through a special variation.
- If the proposed special variation was not approved (ie, only the rate peg applies), the year-on-year change in rates would be lower, or that rates may fall.

The council also must attach, to its application to IPART, a copy of the Instrument of Approval that has been signed by the Minister or IPART Chairman.

4.1 The consultation strategy

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

The council is to provide relevant extracts of the IP&R documents that explain the rate rises under the proposed special variation and attach relevant samples of the council's consultation material.

COMMUNITY ENGAGEMENT CONDUCTED PRIOR TO COUNCIL RESOLVING TO ADVISE IPART OF ITS INTENTION TO APPLY FOR A SRV

Council has since early 2015 consulted with its Community in respect of its FFF Roadmap and the need for the proposed SRV, as part of its Integrated Planning and Reporting requirements and also as part of its FFF Roadmap Program and processes. This included exhibition of the FFF Roadmap, exhibition of Council's IP&R Documentation which were available in Hard Copy in seven locations across the Shire as well as on Council's Website, Media Releases, Facebook and Twitter Posts, discussing the matter on Council's Radio Talkback Sessions and discussing the matter with various Community Groups, including raising the issue at various 'listening tours' conducted at the Villages throughout the Shire.

Despite this publicity and consultation Council has gained only limited public comment on both the FFF Roadmap and its IP&R Documents which included Council's proposal to seek the 14.25% (14.94% cumulative) plus Rate Peg SRV from 2017/2018. That said a significant number of letters to the Editor, in the *Inverell Times* highlighted that the community was cognisant of the proposed SRV.

During the 2016 Council Elections the proposed SRV was a widely publicised issue, with the Concerned Inverell Ratepayers Association and their five endorsed Candidates supporting a position of "**Oppose rate increases** unless it can be shown that all efficiencies have been applied" and running a campaign against the existing Council and the proposed SRV. Only two CIRA endorsed candidates were elected, As shown in Council's FFF Roadmap and Council's 2016/2017 IP&R Documentation, Council has reached the position where all the efficiencies that can deliver significant and sustainable cost reductions have been applied.

SRV SPECIFIC COMMUNITY ENGAGEMENT:

This form of engagement was built upon the consultation conducted and the awareness campaign developed for Council's FFF Roadmap and the SRV and the Long Term Financial Plan over the last 2 years. Council undertook the following actions following the November, 2016 Council Meeting informing the Community that Council has resolved to inform IPART of the Council's intention to prepare a SRV Application. The community was informed that this is the next step in the IPART approved FFF Roadmap and LTFP;

Resident Newsletter

A newsletter was mailed to every residence in the Shire (5,716 copies). The newsletter highlighted:

- the various avenues available to residents to inform Council of their views – web based comment box, direct mail, telephone, dedicated email inbox or in person at Council Library and Council Chambers.

- Timeline for what led to Council seeking feedback on a SRV and how a potential SRV would be phased in.

- What measures Council has undertaken to improve operational efficiency and reduce costs.

- Distribution of where a potential SRV would be spent over the period to 2025-26.

- How the SRV and Rate Peg would impact on the ten rating categories across Inverell Shire, including a year-by-year breakdown of increases to rates.

- Council's proposal to seek the 14.25% plus Rate Peg SRV from 2017/2018, with rates tables outlining the cumulative increase in rates over a three year period for all rating categories;

- Consultation process, including the engagement of University of Technology, telephone survey by Galaxy Research and Deliberative Panel facilitated by University of Technology.

Newsletter dispatched 15 December, 2016.

Website and 'Have your Say' Portal

A wide range of information material was posted on a dedicated web page to inform the community of the background to the SRV, the process and opportunities to express an opinion. The My Inverell My Say website was linked to the Inverell Shire Council website. The information displayed included:

– Special Rate Variation newsletter;

- Fact Sheet – Special Rate Variation

- Fact Sheet – Fit for the Future

- Fact Sheet – Frequently Asked Questions

- Rate Impact Table

- Road Asset Management Plan

- Drainage Asset Management Plan

- Path Asset Management Plan

- Rate Comparison Table;

- Special Rate Variation Briefing Paper

- Four-Year Long Term Delivery Plan

- Long Term Financial Plan

- Community Strategic Plan

Kiosk – Inverell Shire Library

A static display was established at Inverell Shire Library on 12 December, 2016 until 1 February, 2017. The display included the suite of printed materials available at the My Inverell My Say website and a touchscreen 'ATM' like facility.

A total of nineteen respondents completed the survey through the kiosk facility.

Focus Group/Resident Workshops:

A significant number of the Councils that have been granted SRV's have undertaken Focus Group based consultation in addition to consultation with the wider community. This provides an opportunity to provide a great level of information to these community representatives and seek wider/deep level of feedback for consideration.

Council engaged University of Technology's Centre for Local Government to undertake community consultation. This was underpinned by a focus group (Deliberative Panel) 13-14 January 2017. UTS has a proven track record of running community engagement for SRV's and are familiar with the issues experienced by and the needs of Communities in this sub-region.

One key message communicated to the Community, is that the SRV will apply only to the General Rates and not to the total quantum of the Rate Notice.

UTS – Phone Survey

A community survey was developed by University of Technology Sydney and Galaxy and phone surveys of 400 residents were conducted during December. Galaxy contacted a representative sample of residents, reflecting the shire's demography. At the same time, Council provided a link to an online version of the survey on our website and also via a community kiosk at Inverell Library. This online survey was launched 8 December, 2016 and closed 1 February, 2017; a duration in excess of seven weeks.

A follow up phone survey was also conducted by the University Technology Sydney and Galaxy of 300 households following the Deliberative Panel process. This survey tested both the recommendations of the Deliberative Panel and the communities heightened awareness of the SRV and Council's sustainability issues.

Media Release

Media releases were issued to print, voice and web-based media during the exhibition period. Posts were also included on the Inverell Times Facebook page.

Press and Facebook Release commenced following the November, 2016 Council Meeting, informing the Community that Council has resolved to submit a SRV Application in accordance with its IPART approved FFF Roadmap and LTFP.

Digital Media

Through the Council Facebook page and Twitter feed, residents were alerted to the availability of the survey and the distribution of the newsletter to residences. Facebook posts provided a grab of key messages from the newsletter such as 'How would Council spend the funds raised under a Special Rate Variation' and 'We Need Your Feedback'.

4.2 Feedback from the community consultations

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

Where the council has received submissions from the community relevant to the proposed special variation, the application should set out the views expressed in those submissions. Please refer to Section 1.2 concerning how the council should handle confidential content in feedback received from the community. The council should also identify and document any action that it has taken, or will take, to address issues of common concern within the community.

At its November, 2016 Meeting, Council authorised the continuation of the Community Engagement process associated with the FFF Roadmap, Assets Management Plans / Forward Financial Plans and the SRV process. Each of these steps is integrated.

Beginning in December, 2016, Council firstly notified the community of this proposed FFF Improvement Plan, then advertised the Draft Assets Management Plan and the Forward Financial Plan which informed the detail of a possible SRV application. The November 2016 decision by Council resulted in the following additional actions being undertaken to inform the Community of Council's intentions:

- Residents Newsletter,
- Dedicated webpage established,
- Kiosks set up at the Library and Council Chambers,
- Phone surveys (conducted by University Technology Sydney and Galaxy Research),
- UTS Deliberative Panel,
- Media Release to print, voice and web outlets.

Details on each of these activities are now provided.

i) Residents Newsletter

A four (4) page newsletter was prepared and distributed to all households in the Shire. A copy of the newsletter is attached as an Appendix 1 (Mandatory forms and Attachments – Media Releases etc).

The method of distribution for this newsletter was by post.

The distribution of the newsletter generated approximately 25 personal visits to Council to discuss a variety of matters associated with the SRV process.

ii) Webpage on Council Website

A dedicated 'Special Rate Variation' webpage was established. This page contained all material associated with the SRV process. The information included:

- Newsletter
- Frequently Asked Questions
- Financial Information
- Fit for the Future Fact Sheet (SRV)
- Special Rate Variation – Briefing Paper
- Rate Comparison Table
- Rate Impact Table
- Road Asset Management Plan
- Path Asset Management Plan
- Drainage Asset Management Plan
- Long Term Financial Plan 2017 – 2027
- Four (4) Year Delivery Plan 2016 – 2020
- Media Release – Council asks for Community Feedback

The page also included a link to the 'Have Your Say' survey. This voluntary survey provided an opportunity for community members to express their views on the SRV. The format of the survey and an aggregated summary of the residents responses is shown as (Mandatory Forms and Attachments – Community Feedback)

A total of 200 residents completed the survey. Councillors will note that not all questions were completed. The survey format permitted participants to opt out of a particular question if they wished.

iii) Kiosks – Library and Council Chambers

The kiosks established at these locations provided an opportunity to view all the documents associated with the SRV application. The users of the kiosks could then proceed to complete the survey on the 'Have Your Say' portal.

A total of 200 residents accessed the SRV information at the Library, however the only access to the SRV information through the Kiosks in the Council Chambers foyer were the 'hits' carried out by staff when testing the kiosk.

188 residents accessing the site at the Library proceeded to the survey. Their responses are included in the aggregated responses detailed in (Mandatory Forms and Attachments – Community Feedback).

iv) Phone Survey

The market research company, Galaxy Research, conducted a telephone survey of 400 residents. These residents were randomly selected from all geographic areas across the Shire.

The report provided by UTS, summarises the views of the residents in the following manner:

A complete summary of this aspect of the Community Engagement process is included as part of the UTS Report which is attached as a separate document (Refer Attached - Section 2).

v) Deliberative Panel

The University of Technology (Sydney) invited 25 residents to be part of a Panel to consider background information on the need for a SRV and to provide comment on this information. The Panel met over 1.5 days.

At the end of the Panel's deliberations, two (2) members of the Panel were selected (by the Panel members) to make a presentation to Councillors. Councillors Harmon, Michael, Baker, Berryman and Watts were available to attend this briefing. Councillors Dight, King and McCosker apologised due to previous commitments.

The Councillors were not present during the deliberations by the panel.

A report of the Panel's deliberations is included in the UTS report which is attached as a separate document (Attached – Section 3). In summary, the Panel found as follows:

vi) Media Releases

During the period media releases were prepared and provided to local and regional media outlets. The releases were prepared to promote the opportunities for the community to comment (on the SRV information).

vii) Letters

Since November, 2016, 17 letters regarding the SRV have been received.

A summary of the content of these letters is attached (Refer Mandatory Forms and Attachments – Community Feedback).

It will be noted that six (6) of the correspondent's express opposition to a SRV application, 4 correspondents express support for the SRV application.

On Thursday 2 February, 2017 Council met with representatives of the Delungra Community (one of the lowest "lower socio economic ranking" communities in NSW) and conducted an inspection of Village facilities. While the meeting canvased a range of issues in respect of Existing Service Levels and Infrastructure provision, no issues were raised by the Community in respect of the proposed SRV, despite the opportunity being provided to discuss the issue. The matters that were raised were around how Council could further improve Service Levels and Infrastructure in Delungra and the surrounding area. This further confirmed the findings of the UTS Surveys and Deliberative Panel.

viii) UTS Community Engagement Summary

2017 SPECIAL RATE VARIATION COMMUNITY ENGAGEMENT

INVERELL SHIRE COUNCIL – 8 FEBRUARY 2017

In light of recent local government reforms and changing expectations of local government, Inverell Shire Council (Council) is engaging the community about key financial and service and infrastructure delivery challenges facing Council.

The Centre for Local Government (CLG) was contracted by Council to undertake this engagement, which used a phone survey, deliberative panel and post-panel survey to canvass community views on:

- Importance of different services, assets and infrastructure provided by local government
- The role of local government in providing services to the community
- Level of satisfaction with Council services and infrastructure
- Level of local government investment in services and infrastructure
- How local government should pay for investment in services and infrastructure

PHONE SURVEY FINDINGS

A phone survey (n=400) was used to establish broad community views towards these issues:

- The most important local government services and infrastructure for Inverell Shire residents are

– 'emergency and disaster management' (90% rated this as 'extremely' or 'very important')

– 'roads and bridges' (88% rated this as 'extremely' or 'very important')

– 'water, sewage, stormwater, drainage' (83% rated this as 'extremely' or 'very important')

– ‘aged care’ (84% rated this as ‘extremely’ or ‘very important’)

– ‘planning for the future’ (81% rated this as ‘extremely’ or ‘very important’) and

– ‘health and environmental management’ (76% rated this as ‘extremely’ or ‘very important’).

 Almost all (92%) agree there is a role for local government in providing any of the services that the community needs and want local government to involve them in decision-making about services (92%)

 There are mixed views as to whether decisions about services in an area should be made primarily on value of money (51% agree and 44% disagree)

 Services and infrastructure in the area are considered adequate in terms of ease of access (61%); quality (64%); usefulness (63%) and value for money (61%)

 Just over half (53%) are not prepared to accept a decrease in services, even if this makes rates cheaper

 Most think there should be more spent on essential services and infrastructure provided by Council such as roads and bridges (73%) and emergency and disaster management (65%); and a continuation of existing investment on most other services provided by Council such as youth services, economic development, and sporting and recreation facilities

 However, most think local government should raise funds by cutting spending or services (43%) in some areas while a minority think funds should be raised through user charges (17%) or were uncertain (19%).

DELIBERATIVE PANEL FINDINGS

The deliberative panel provided 20 randomly selected community members with an opportunity to explore the key challenge Council faces in more detail, and provide advice on how Council should address it.

The key challenge facing Council is that revenue no longer meets costs to provide services and infrastructure at current levels.

After considering the evidence behind this challenge, and being given an opportunity to interrogate and seek clarifications from Council staff, the deliberative panel advised:

 Council’s investment in service and infrastructure should be at least maintained at current levels or increased, and

 In order for this to happen, they are willing to accept a Special Rate Variation (SRV) that increases rates by 14.25% over four years

This advice was provided to Council to inform its decision making around an SRV application to be lodged with the NSW Independent Pricing and Regulatory Tribunal in early 2017. Following the panel, an additional phone survey tested this advice with the broader community.

POST-PANEL PHONE SURVEY FINDINGS

The survey instrument (Attachment A) was designed by CLG and fieldwork was undertaken by Galaxy Research from Thursday 2nd to Tuesday 7th February. The survey used landline phone numbers and reached 300 Inverell Shire households. It included questions on:

- Awareness of Council's consideration of an increase in rates
- Views about the financial challenge facing Council, including need to address it and ways to do this
- The advice provided to Council by the deliberative panel
- Willingness to accept a rate increase to address Council's financial challenge

The responses from this representative sample were:

i) Awareness of Council's plan

- Overall, about two thirds had heard about Council considering changing the amount of rates landowners pay (65%). Of these, half heard through local media reports (50%), and a similar amount through Council newsletters (42%)

ii) Views on Council's financial situation

- Overall, there were mixed views on Council's financial challenge. Just over half are worried about Council's finances (53%), and just under half are not (47%)

iii) Addressing Council's financial situation

After being presented with options available to Council to address its financial challenge, and given information on the implications of these options for their rates bill as well as services and infrastructure:

- More than half think Council should raise more income through increased rates (58%)
- About a fifth think Council should either cut spending on roads, bridges and other services (22%), or address its financial challenges through other means (20%)

iv) Testing views of the deliberative panel

After being presented with the advice provided to Council by the deliberative panel, and the key reasons behind this advice:

- Over two thirds agree with the advice provided by the panel to Council (68%)

- About a fifth do not agree with the advice provided (22%)

- A small proportion is unsure whether they agree or do not agree with advice provided (10%)

v) Increasing rates

- Just under two thirds think there is a need to increase rates (61%), just under one third thinks there is not (30%), and the remainder are unsure (8%)

vi) Willingness to accept increase

When given weekly and annual dollar amounts for potential rate increases for the property they live in:

- Just under two thirds of homeowners accept paying this amount to maintain current service and infrastructure levels (59%) Just over one third do not accept paying this amount (38%), and the remaining small proportion is not sure (3%)

5 Assessment criterion 3: Impact on ratepayers

Criterion 3 in the Guidelines is:

> *The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Program and Long Term Financial Plan should:*
>
> - *clearly show the impact of any rises upon the community*
> - *include the council's consideration of the community's capacity and willingness to pay rates and*
> - *establish that the proposed rate increases are affordable having regard to the community's capacity to pay.*

The impact of the council's proposed special variation on ratepayers must be reasonable. To do this, we take into account current rate levels, the existing ratepayer base and the purpose of the proposed special variation. We also review how the council has assessed whether that the proposed rate rises are affordable having regard to the community's capacity and willingness to pay.

5.1 Impact on rates

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

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

We recognise that a council may choose to apply an increase differentially among categories of ratepayers. If so, you should explain the rationale for applying the increase differentially among different categories and/or subcategories of ratepayers, and how this was communicated to the community. This will be relevant to our assessment of the reasonableness of the impact on ratepayers.

Councils should also indicate the impact of any other anticipated changes in the rating structure.

RATING STRUCTURE:

Council's 2016/2017 Budget provides for the following General Rates:

% OF REVENUE FROM CATEGORIES			
RESIDENTIAL	40.23%	$	4,318,703
RURAL RESIDENTIAL	7.49%	$	804,466
FARMLAND	32.15%	$	3,452,089
BUSINESS	20.13%	$	2,160,959
MINING	0.00%	$	-
TOTAL GENERAL RATE REVENUE		$	10,736,217

This Rate Distribution breakup has largely been in place since the formation of Inverell Shire Council in 1979. Following consideration of the Rate Distribution, Council chose not to alter this distribution under the proposed 14.25% SRV. This means that the SRV will be applied equally across the existing rating categories and subcategories, category movements excluded.

During the proposed SRV phase in period, Council is not intending to make any changes to its existing rating structure across the General, Water or Sewerage Funds. The only impact that Council is aware of is the impending imposition of the NSW State Government's Emergency Services Levy. Council notes that this State Government impost should not be considered in the assessment of Council's proposed SRV or its impact on Ratepayers.

5.1.1 Minimum Rates

The proposed special variation may affect ordinary rates, special rates and/or minimum rates.

As previously discussed, if the proposed special variation includes increasing minimum rates above the statutory limit, or is to apply a higher rate of increase to an existing minimum rate than to its other rates, it is not necessary for the council to also complete the separate Minimum Rates application form. However, this must be clearly identified and addressed in the special variation application.

Does the council have minimum Ordinary rates? Yes ☐ No x☐

If *Yes*, does the council propose to increase minimum Ordinary rates by:

The rate peg percentage ☐
The special variation percentage ☐
Another amount ☐ Indicate this amount _____

What will minimum Ordinary rates be after the proposed increase? _____

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

You should also explain the types of ratepayers or properties currently paying minimum rates, and the rationale for the application of the special variation to minimum rate levels.

Not Applicable

5.2 Consideration of affordability and the community's capacity and willingness to pay

The council is required to provide evidence through its IP&R processes, and in its application, of how it assessed the community's capacity and willingness to pay the proposed rate increases. This is to include an explanation of how the council established that the proposed rate rises are affordable for the community.

Evidence about capacity to pay could include a discussion of such indicators as SEIFA rankings, land values, average rates, disposable incomes, the outstanding rates ratio and rates as a proportion of household/business/farmland income and expenditure, and how these measures relate to those in comparable or neighbouring council areas.

As many of these measures are highly aggregated, it may also be useful to discuss other factors that could better explain the impact on ratepayers affected by the proposed rate increases, particularly if the impact varies across different categories of ratepayers.

We may also consider how the council's hardship policy (see Section 5.3 below) might reduce the impact on socio-economically disadvantaged ratepayers.

AFFORDABILITY:

Affordability and Capacity to Pay Issues:

During the formulation of the FFF Roadmap, LTFP and Delivery Plan Council has on continuing basis considered capacity to pay issues in respect of the proposed SRV.

Wider Industry Rate Movements:

Council first considered the wider industry and SRV's. Council considered that based on the information available, 122 NSW Councils had received a SRV since 2011 and prior to 2015 mergers, and that a further 6 SRV's were approved in 2016 (85% of Councils).

The purpose of this information was for Council to gain some comfort from the level of use of a SRV by the industry.

Regional Rate Movements:

Locally since 2011, the SRV increases have been Gwydir 30.0%, Moree 27.75%, Glen Innes 26.82%, Armidale 12.36%, Tamworth 20.6% and Tenterfield 45.0% for an average Rate Increase of 27.09%. While Armidale had the lowest SRV at 12.36%, Armidale is not FFF and their Long Term Financial Plan discloses a $24.8M deficit over the ten years commencing 1 July, 2016. Armidale require an 18.76% SRV implemented from 1 July, 2017 to address this matter, which would take their required increase to 31.12%. While Narrabri Shire have not received a SRV to this point, since 2011, Narrabri Shire's General Rate income was $11.91M (SRV in mid 2000's) in 2014/2015 against Inverell's 2014/2015 General Rate Income of $10.26M (difference $1.65M as per the Table below) and Narrabri Council's FFF Roadmap requires a 15% SRV phased in over the three (3) years commencing 1 July, 2017 (Has now been delayed to 2018/2019 with Internally Restricted Assets to be repurposed to cover expenditure needs for 2017/2018).Narrabri Shire, like Moree Shire have a lower population but similar other major characteristics.

Council has also, in seeking to understand the affordability and capacity to pay issues, considered the total General Rates levied across the region as shown in the following Table:

Summary of Notional Income 2014/2015

	Farmland	Residential	Mining	Business	TOTAL
Tamworth Regional Council	5,325,636	20,663,321	16,458	5,656,776	**31,662,191**
Moree Plains Shire Council	14,056,808	4,200,878	-	2,423,784	**20,681,470**
Armidale Dumaresq	2,570,910	9,190,362	23,798	2,250,900	**14,035,970**
Narrabri Shire Council	5,898,596	4,041,235	690,337	1,281,941	**11,912,109**
Inverell Shire Council	3,290,612	4,889,543	-	2,077,008	**10,257,163**
Gwydir Shire Council	4,818,253	755,808	-	130,010	**5,704,071**
Glen Innes Severn Council	2,361,290	2,640,433	290	47,421	**5,549,434**
Uralla Shire Council	1,938,781	1,475,831	-	98,989	**3,513,601**
Guyra Shire Council	874,328	705,611	2,949	98,778	**2,681,666**

A review of the Table will show that Council has the lowest General Rate Income of the large Councils in the Region by a significant margin of more than the SRV that Council is seeking. Council also considered that these figures will vary further as Glen Innes has received a 26.82% SRV implemented over three years from 2014/2015 to 2016/2017, Gwydir Shire has now received a 30% SRV implemented over 2015/2016 and 2016/2017, and Narrabri Shire will be applying for a 15% SRV to be implemented from 2018/2019, delayed for 2017/2018.

Council also noted that the following are the average Rate increases being applied to the neighbouring Gwydir Shire Ratepayers under their 30% SRV from their published information:

Gwydir Shire 30% Rate Increase – (details from Gwydir Shire Website)

Residential Rates average increase	$ 190 pa
Business Rates average increase	$ 456 pa
Farmland Rates average Increase	$1,458 pa

Council considered its Outstanding Rates Ratio. Council's Ratio has consistently been at the lower end of the NSW Group 11 (large Rural Council) average of 5.9% (2015/2016) and the NSW State average of 5.85%. Council's Ratio's have moved between 5.2% and 5.9%, and was a low 5.3% at 30 June, 2016. This indicates that Council's Ratepayers generally do not have any greater difficulty in paying their rates than Ratepayers of other areas.

These regional matters investigated would indicate that the proposed SRV is affordable and that Inverell Shire Ratepayers do have a higher capacity to pay based on the increases faced by their State and Regional counterparts.

Rate Distribution:

By maintaining the current distribution of the Rate burden, the SRV rate increase payable by Village Residents (lower socio economically disadvantaged communities) will be significantly less than the proposed increases in the Inverell Township and Rural

Residential area. That said the Village communities are already highly subsidised across the General, Water and Sewerage Funds by the Inverell Community.

Council's Rating Structure, being based on Unimproved Capital Values with a relatively low Rating Base Amount, flowing from Council's low overheads, also acts to address capacity to pay and affordability issues within the Inverell Community and across the various localities.

Council also considered that for the Business and Farmland Ratepayers, Rates and Charges are a Tax Deductible Business expense and that these two groups will be the major beneficiaries of any SRV by way of improved Rural Road infrastructure and the associated economic flow on benefits. The rural sector has for the last two years been the beneficiary of a substantial increase in rural commodity prices, which as well as benefiting that sector, has had a flow on effect to the business and wider community.

Total Rate Bill:

Council, in the consideration of the SRV affordability and capacity to pay issues, also considered the Total Rate Notice. Council is aware that what most people look at is not the individual rates, but rather the Total Rate Notice amount. In considering this matter and the impact of the SRV on the Shire's Ratepayers, Council investigated how it could limit the overall Total Rate Notice increase. Accordingly, noting the financial health of the Waste Management Function and Water and Sewerage Funds as confirmed by Council's External Auditor, Council has determined that the total increase in these charges for the proposed SRV implementation period will be set a maximum total of 3.0%. What this means is that in the Shire Villages and Lower Valued areas (lower socio economic areas) of Inverell, the Total Rate Notice increase including the SRV will in fact in most cases be less than would have applied over a normal three year period (Rate Peg plus CPI plus increases in other charges). (Refer Rate Comparisons 2019/2020 at Item 9 of Mandatory Forms and Attachments).

Willingness to Pay Issues:

In respect of willingness to pay, Council notes that the proposed SRV issue and the level of the SRV has been before the Community since May, 2015 when Council placed its FFF Roadmap on Public Exhibition. At the time Council only received three public submissions supporting the FFF Roadmap and one submission against the FFF Roadmap. The SRV was subsequently included in Council's LTFP, Delivery Plan, 2016/2017 Operational Plan and Budget and Asset Management Plans and these placed on Public Exhibition, with only one submission being received which supported Council's direction including the proposed SRV.

The SRV was a major 2016 Local Government Election issue. The Candidates who supported the FFF Roadmap including the proposed SRV were elected in majority.

The UTS Community Engagement process considered the willingness to pay issue. In the initial Community Survey conducted over December, 2016 the majority of residents thought Council *"should raise funds by cutting spending on services in some areas"*, with

a substantial minority of residents thought *"funds should be raised through user charges or were uncertain".* A small minority think *"funds should be raised through land rate, borrowings or increasing water and sewerage rates".*

At the same time 26% of residents want Council to spend a lot more on Services, 33% of residents a little more on services and 33% the same as Council is currently spending on services. Only 4% said Council should spend less and 4% didn't know. That is 92% of residents want Council to spend the same or more on services. The survey results did not surprise Council in respect of the services/infrastructure the Community think are most important being Roads and Bridges, Emergency and Disaster Management, Water, Sewerage, Stormwater and Drainage. The community largely rated the remainder of Council's Services/Infrastructure as very important to them. This confirms Council's ongoing view that it must maintain its existing Service Levels and Infrastructure, and that the cutting of these existing services and infrastructure is not an option.

A review of the Survey outcomes, against the needs identified by Council for the proposed SRV, being largely for Roads and then the maintenance of existing Services and Infrastructure will clearly show that it is not an option to *"raise funds by cutting spending on services in some areas" or "funds should be raised through user fees".*

The UTS Deliberative Panel who undertook an in-depth analysis of Council, its Financial Position and FFF Roadmap, presented their position to Council being that the group accepted the need for the proposed SRV. Some group members supported a slightly higher SRV of between 14.5% and 15.0% to provide Council with a small amount of leeway.

One participant in the UTS Deliberative Panel exercise noted the recent large increase in fuel prices and how he was not consulted by the Fuel Company's, didn't like being slugged for an extra $20/week, but knew he had to pay it, commenting that the SRV was nothing in comparison.

UTS in delivering their Findings to Council at the end of the Deliberative Panel – Community Engagement process stated that:

"After considering the background evidence and information on Council's financial sustainability and service levels, the need for and extent of Council's SRV Application is generally accepted by the community'.

Following the Deliberative Panel process and considering the wider publicity and growing community understanding of the issue, a further Community Survey of 300 households was conducted by UTS. The following is an excerpt of the UTS findings.

POST-PANEL PHONE SURVEY FINDINGS

The survey instrument was designed by UTS CLG and fieldwork was undertaken by Galaxy Research from Thursday 2nd to Tuesday 7th February. The survey used landline phone numbers and reached 300 Inverell Shire households. It included questions on:

- *Awareness of Council's consideration of an increase in rates*

- *Views about the financial challenge facing Council, including need to address it and ways to do this*

- *The advice provided to Council by the deliberative panel*

- *Willingness to accept a rate increase to address Council's financial challenge*

Awareness of Council's plan

- *Overall, about two thirds had heard about Council considering changing the amount of rates landowners pay (65%). Of these, half heard through local media reports (50%), and a similar amount through Council newsletters (42%)*

Views on Council's financial situation

- *Overall, there were mixed views on Council's financial challenge. Just over half are worried about Council's finances (53%), and just under half are not (47%)*

Addressing Council's financial situation

After being presented with options available to Council to address its financial challenge, and given information on the implications of these options for their rates bill as well as services and infrastructure:

- *More than half think Council should raise more income through increased rates (58%)*

- *About a fifth think Council should either cut spending on roads, bridges and other services (22%), or address its financial challenges through other means (20%)*

Testing views of the deliberative panel

After being presented with the advice provided to Council by the deliberative panel, and the key reasons behind this advice:

- *Over two thirds agree with the advice provided by the panel to Council (68%)*

- *About a fifth do not agree with the advice provided (22%)*

- *A small proportion is unsure whether they agree or do not agree with advice provided (10%)*

Increasing rates

When asked overall:

- *Just under two thirds think there is a need to increase rates (61%), just under one third thinks there is not (30%), and the remainder are unsure (8%)*

Willingness to accept increase

When given weekly and annual dollar amounts for potential rate increases for the property they live in:

- *Just under two thirds of homeowners accept paying this amount to maintain current service and infrastructure levels (59%) Just over one third do not accept paying this amount (38%), and the remaining small proportion is not sure (3%)*

(Refer Mandatory Forms and Attachments – Community Feedback).

These results clearly show that at the end of the SRV Publicity and Community Engagement process, that the majority of Inverell Shire Ratepayers accept the proposed 14.25% SRV (the figures provided in the Survey to households were the 22.2% total cumulative Rate increase figures being the SRV plus the Rate Pegs for the three year period).

Further details in this matter are included above in Section 4.2.

5.3 Addressing hardship

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

Does the council have a Hardship Policy?	Yes X ☐	No ☐
If Yes, is an interest charge applied to late rate payments?	Yes X ☐	No ☐
Does the council propose to introduce any measures to reduce the impact of the proposed special variation on specific groups in the community?	Yes X	No ☐

You should attach a copy of the Hardship Policy and explain below who the potential beneficiaries are and how they are assisted.

Please provide details of any other measures addressing hardship to be adopted, or alternatively, explain why no measures are proposed.

The council is also to indicate whether the hardship policy or other measures are referenced in the council's IP&R documents (with relevant page reference or extract provided).

Council is sensitive to the need to balance the requirements of its Ratepayers to pay their rates against cases of genuine Hardship. Council provides all Statutory Pensioner Rebates and works with its Ratepayers to ensure they receive any assistance they are eligible for.

POLICIES:

Council's "Write-offs – Rates, Charges and Debt Hardship Policy is accessible by all Ratepayers. The policy assists Ratepayers by enabling them to enter into payment arrangements outside of the Normal Rates and Charges payment arrangements. A main feature of the Policy is that while Rates and Charges normally accrue interest charges, Council's Policy provides for Ratepayers to be able to apply to have these Interest Charges written-off and refunded/credited back to the Ratepayer when the outstanding amount is finalised. Most Ratepayers to date have chosen to have the credit amount taken off their future Rates.

Council's "Write-offs – Extra Charges (Pensioners) Hardship Policy is accessible by all Pensioners. The policy assists Pensioner Ratepayers by enabling them to have the Interest Charges which have accrued on outstanding Rates and Charges written-off and refunded/credited back to them when the outstanding amount is finalised, except where the property is sold or transferred into an estate. Most Pensioners to date have chosen to have the credit amount taken off their future Rates.

In addition to these Policies, Council's Debt Collection Policy makes specific reference to Pensioners and persons suffering from drought or other genuine hardship. The Policy requires that Recovery Action should only be taken after careful inquiry, and only in instances where the action will not place the Ratepayer under additional Hardship. It is noted that while Council has the option of proceeding to a Sale of Land for Unpaid Rates and Charges, Council has not at any time reached a situation with a Ratepayer, where it has had to proceed to the sale of any Ratepayers Residential or Business premises. This is a strong achievement for Council and recognition of Council's willingness to work with Ratepayers in respect of Rates and Charges, when considered against Council's low Outstanding Rates and Charges Ratio.

(The Policies are included at Mandatory Forms and Attachments – Hardship Policy)

In addition to the above, Council advises that it participates in the Centrelink Centre Pay Program as a service to its Pensioners and other Welfare recipients, which enables these Ratepayers to have regular payments deducted from their Centrelink payments. This has proved very popular, with Council funding the Centre Pay transaction fees.

OTHER MATTERS – SPECIFIC GROUPS:

As noted in Section 5.2 above, Council in the consideration of the SRV affordability and capacity to pay issues, considered the Total Rate Notice and the issue of genuine Financial Hardship. Council is aware that what most people look at is not the individual rates, but rather the Total Rate Notice amount. In considering this matter and the impact of the SRV on the Shire's Ratepayers, Council investigated how it could limit the overall Total Rate Notice increase especially in the Shires Villages and the lower socio economic areas of Inverell. Accordingly, noting the financial health of the Waste Management Function and Water and Sewerage Funds as confirmed by Council's External Auditor, Council has determined that the total increase in these charges for the

proposed SRV implementation period will be set a maximum total of 3.0%. What this means is that in the Shire Villages and Lower Valued areas (lower socio economic areas) of Inverell, the Total Rate Notice increase including the SRV will in fact in most cases be less than would have applied over a normal three year period (Rate Peg plus CPI+ increase in other charges). This fact will significantly assist the Shires Pensioners and other Ratepayers who may be experiencing genuine Financial Hardship. (Refer Mandatory Forms and Attachments – Hardship Policy).

Overall, Council's ongoing low outstanding Rates and Charges Ratio, clearly demonstrates Council's ability to work with its Community in respect of the payment of Rates and Charges, including any Ratepayer experiencing genuine Hardship.

IP&R DOCUMENTS:

Council's "Write-offs – Rates, Charges and Debt Hardship Policy, Council's "Write-offs – Extra Charges (Pensioners) Hardship Policy and Council's Debt Collection Policy are referenced at Page 47 of Council's 216/2017 Operational Plan and Budget as follows:

"In the development of the 2016/2017 Budget, the total quantum of the "average rate bill" increase has been taken into consideration. Noting the proposed increases in Water, Sewerage Charges and Waste Charges, a recommendation has not been made for a "Special Variation" in the General Rate in 2016/2017 above the 1.8% IPART Rate Peg limit. This however, has a number of implications for the General Fund which are dealt with in the General Manager's Report on the 2016/2017 Operational Plan and Budget. Council's Fit for the Future Roadmap and Long Term Financial Plan indicate that Council requires a 14.25% Special Rate Variation to be delivered over three (3) years commencing in 2017/2018.

Ratepayers who are suffering genuine Financial Hardship and Pensioners have access to a range of concessions to enable them to meet their rate payment obligation. These are included in Council's "Write-offs – Rates, Charges and Debt Hardship Policy, Council's "Write-offs – Extra Charges (Pensioners) Hardship Policy and Council's Debt Collection Policy".

6 Assessment criterion 4: Public exhibition of relevant IP&R documents

Criterion 4 in the Guidelines is:

> *The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.*

Briefly outline the significant IP&R processes the council has undertaken to reach the decision to apply for a special variation. Include the details of and dates for

key document revisions, public exhibition period(s) and the date(s) that the council adopted the relevant IP&R documents.[3]

You should also include extracts from council minutes as evidence that the documents were adopted.

The council is reminded that the Community Strategic Plan and Delivery Program (if amended), require public exhibition for at least 28 days prior to adoption. Amendments to the Long Term Financial Plan and Asset Management Plan do not require public exhibition.[4] However, it would be expected that the Long Term Financial Plan would be posted, in a prominent location, on the council's website.

Council has since early 2015 conducted significant Consultation with the wider Community in respect of its FFF Roadmap and the need for an SRV as part of its Integrated Planning and Reporting requirements and also as part of its FFF Roadmap Program and processes.

As noted in this Application, Council has been considering its long term financial Sustainability since 2009. The matter of the need for the proposed 14.25% SRV was first raised in the preparation and adoption of the FFF Roadmap. The draft FFF Roadmap was adopted by Council in May, 2015 (Refer Mandatory Forms and Attachments – Other) and placed on Public Exhibition and the subject of wide media coverage.

Following the Exhibition period Council adopted the FFF Roadmap and the 2015/2016 Operational Plan and Budget and Long Term Financial Plan which were also on Exhibition. Only two submissions were received, however a further joint submission was later received. The submissions were largely supportive of Council's FFF Roadmap including the proposed 14.25% SRV. These documents are available on Council's Website on a continuing basis, but always in their most up-to-date version.

The 2016/2017 Draft Operational Plan and Budget, Updated LTFP and Roads, Drainage and Footpaths Asset Management Plans were subsequently prepared and considered by Council in April, 2016 and placed on Public Exhibition. This again included exhibition of the FFF Roadmap as well as the required, exhibition of Council's IP&R Documentation which were available in Hard Copy in seven locations across the Shire as well as on Council's Website, Media Releases, Facebook and Twitter Posts, discussing the matter on Council's Radio Talkback Sessions and discussing the matter with various Community Groups, including raising the issue at the 2016 Committee Meetings held in the Villages (Refer Mandatory Forms and Attachments – LTFP, Asset Plans, Other).

Following the Public Exhibition period only one submission was received supporting Council's IP&R Documents (Refer Mandatory Forms and Attachments – Community

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

4 Office of Local Government (then Division of Local Government), *Integrated Planning and Reporting Manual for local government in NSW*, March 2013, pp 5-6.

Feedback). These documents again have remained on Council's Website on a continuing basis.

In continuing the implementation of Council's FFF Roadmap and following the 2016 Council Elections, Council again commenced a review of its IP&R Documents and provided the new Council with an induction in October, 2016 and also a comprehensive briefing on the FFF Roadmap in November, 2016, including the requirement for the proposed 14.25% SRV. A report was provided to the November, 2016 Council Meeting in this matter. As per Council's resolution the LTFP and Delivery Plan were updated to include the IPART 1.5% 2017/2018 Rate Peg, the 2016 Valuer Generals Valuations and the 2016/2017 $141K increase in State Government Charges (Cost Shifting) and the financial implications flowing from these. These updated IP&R Documents were again placed on Public Exhibition on Council's Website as part of the SRV Community Engagement Program (Refer Mandatory Forms and Attachments).

Council considered the outcomes of the Community Engagement Program at its Special Meeting on 8 February, 2017. At this meeting Council resolved to adopt the revised LTFP 2017-2027 and Delivery Plan 2016-2020. (Refer Mandatory Forms and Attachments – Resolutions).

Council has complied with the required 28 day exhibition period for IP&R Documents on a continuing basis. While the original FFF Roadmap was only on exhibition for 14 days this was due to the tight FFF Roadmap submission deadline, however, Council has continued to gain community feedback on its IPART approved FFF Roadmap and its implications on a continuing basis.

7 Assessment criterion 5: Productivity improvements and cost containment strategies

Criterion 5 in the Guidelines is:

> *The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.*

In this section, you must provide details of any productivity improvements and cost containment strategies that you have implemented during the last two years (or longer) and any plans for productivity improvements and cost containment over the duration of the proposed special variation.

These strategies, which may be capital or operational in nature, must be aimed at reducing costs and/or improving efficiency. Indicate if any initiatives are to increase revenue eg, user charges. Please include below whether the proposed initiatives (ie, cost savings) have been factored into the council's Long Term Financial Plan.

Where possible, the council is to quantify in dollar terms the past and future productivity improvements and cost savings.

The council may also provide indicators of efficiency, either over time or in comparison to other relevant councils. We will make similar comparisons using various indicators and OLG data provided to us.

PRODUCTIVITY AND COST CONTAINMENT STRATEGIES IMPLEMENTED

Operational Efficiency and Effectiveness (OEE) Program

As noted above since 2009, Council has been undertaking a systematic review of its operations. This has resulted in Council implementing a wide range of productivity and cost containment strategies to ensure it is both efficient and effective in its Service and Infrastructure Delivery. This has also included implementing new and higher charges where possible. These have been incorporated into Council's updated LTFP and other IP&R Documents.

The OEE Program has considered all areas of Council's Operations eg Works, Plant, Energy Usage, Governance, Administration, Information Technology, Service Delivery. The overarching objective of this focus has been to contain costs and increase user charges where possible to delay the need to apply for a SRV.

The following matters and efficiency gains are noted:

- The FFF Program introduced a new Efficiency Benchmark being **Real Operating Cost per Capita**. The FFF Program requires that Councils "demonstrate a decrease in its Real Operating Cost per Capita over time, subject to any increase in Service Levels".

This benchmark shows that Council has achieved a **24.75% Efficiency Gain** or 3.53% per annum efficiency improvement for the seven (7) years ending 30 June, 2016, being the initial FFF Review Period. This demonstrates Council's ongoing commitment to Continuous Improvement, while maintaining and improving Service Levels. That said it has now become very difficult to identify and achieve further gains without compromising Service Delivery to the Community;

- Governance and Administration costs for 2014/2015 at $165.86 per capita were 55% below the Group 11 Council Average ($365.90 per capita) and under 50% of the NSW Council average, resulting in more funds being available for Service and Infrastructure delivery (OLG Comparative Data Report);

- Workers Compensation premiums of $1.67 per $100 of Wages Paid, against an Industry Average of $3.61 per $100 of wages paid. Council has received every Workers Compensation and General Insurance Incentive and Performance Bonus from its Insurers since 2009 resulting in total cost savings of approximately $600K;

• Achieved Interest Rate Subsidies through the Local Infrastructure Renewal Scheme and Low Interest Rate Loans FFF Program saving the Community $0.96M. Being deemed 'a FFF Council' has allowed Council access to Low Interest Rate Loans from NSW Treasury Corporation;

• Ongoing Electricity Cost savings of $445K per annum across the Organisation through Council's Solar Energy generation, Energy Efficiency and Joint Purchasing Programs. As advised to Council the large proportion of these cost savings have largely been allocated to Road Grading and Road Maintenance cost increases to meet existing Service Level demands;

• Typical Residential Water Bill for 2014/2015 of $548 p.a. with no water restrictions, against a NSW Average of $550 p.a. and a NSW Councils 3,000 to 10,000 properties Average of $617 (Inverell **12% lower**) while providing significant ongoing water subsidies to Bindaree Beef (Inverell's largest employer and a business of State significance);

• Typical Residential Sewer Bill for 2014/2015 of $453.50 p.a. against a NSW Average of $625.00 p.a. being 27.5% less than the NSW average charge;

• Council has the Lowest Waste Management Charges in the Region and has now opened the new Inverell Community Recycling Centre. Council's Waste Management Recycling Recovery Rate is 45% against a Group 11 NSW Council average of only 36%;

• Council's Bitumen Reseal and Heavy Patching Costs are up to 25% below the IPWEA National Industry Benchmarks. While some of these cost savings have been utilised to accelerate the Bitumen Reseal Program, Council has also increased the quality of the Bitumen Products being utilised to extend its Bitumen Sealed Road Surfaces "useful lives". Cost savings retained in Program to increase the annual quantum of works undertaken;

• Council's Indicative average Gravel Road resheet cost of $14,000 per km (dependant on Gravel Pit location and haulage distances), being a 15% reduction in the unit rate due to ongoing efficiencies (cost was $16,500 to $18,500 a km in 2009). The last reported 2012/2013 RMS Regional Road Network Gravel Resheet figure was $26,500 per kilometre. Some Group 11 Council Gravel Resheeting Rates are up to $33,380 per km Cost savings retained in Program to increase the annual quantum of works undertaken;

• Council has achieved an $180K p.a. reduction in Light Plant Fleet costs equating to a $1.8M cost saving over the next ten years. Council has also achieved efficiency gains of up to 10% across its Heavy Plant Fleet, and introduced GPS Fleet Monitoring to the Fleet. These initiatives have resulted in Council only increasing its Plant Hire Rates once in last 6 years, bringing significant savings to Council's Works and Operational Programs, while maintaining a modern efficient, effective Plant Fleet at up to 20% below Commercial Plant Hire Rates;

• Over the period since 2009 Council has acquired that latest technology Road Pavement reclaiming/recycling equipment, leading to substantial cost savings in Road Pavement Rehabilitation and Renewal costs (Pulvi Mixer/Reclaimer, Cement/Lime

Spreading Truck, Posi Track loader with 1 metre Road Mill). In many cases now rather than expensive full Bitumen Road Rehabilitations and Renewals, Council now undertakes heavy patching followed by a bitumen reseal. An example of this type of work is the Bruxner Way where extensive heavy patching was undertaken and then a 50km long section bitumen resealed, substantially extending the useful life of this large road Asset at a cost of $1.91M, being substantially less than an estimated full renewal/rehabilitation cost of $16.25M for the 50km segment;

• Council has also changed its Road Grading Practices to include the use of Water Carts and Rollers with the Graders, to increase the life of each road grade and the quality of surface provided to meet Community expectations. Technical Staff have advised that while this has increased the cost of each grade, evidence collected to date has clearly shown that Gravel Road pavements and asset useful lives are being extended by this practice;

• Council has added Front-end loaders to a number of its Slasher Tractors to enable storm damage/debris to be cleaned up, and drainage issues to be addressed during the Roadside Slashing process, resulting in ongoing costs saving to the Bitumen Sealed Road Program;

• Council has undertaken a review of its Service Delivery and Legislative compliance needs to strengthen Council's current Financial Position Council. As a result Council has:

o reverted to providing its Waste Management Functions, specifically Waste Collection and Waste Facility Management, by day labour with Council owned Plant and Equipment. This has avoided the significant Commercial Waste Contract cost increases being experienced by other Councils needing to be passed onto the Community;

o Following an extensive review, sold the Inverell Regional Saleyards to a specialist private Saleyards Operator. The net $2.14M of funds remaining after the sale were allocated to the Road Asset Infrastructure Backlog Program;

o Undertaken a review of Council's Land Bank. Council undertook to sell a number of surplus marketable properties with the proceeds being utilised to fund asset renewals. During this review it was also identified that two reserve areas being Bonshaw Weir and Well's Crossing were in fact owned by Local Land Services and Council discontinued maintenance of these areas at a saving of 18K p.a.;

o Following a review of Library Services, Council has reduced the Library Opening hours to normal business hours and introduced new technologies. This has directly resulted in the annual Library Budget reducing from $1M p.a. in 2012/2013 to an estimated $0.75M in 2017/2018 with these cost savings of $250K being directed to unavoidable cost increases in other areas, particularly asset maintenance and renewal;

o In addition to these matters Council has sold all obsolete Plant, Materials and Equipment and continues this practice allocating these funds into the upgrade of required equipment with the latest technology;

o Council has and continues to encourage local Community Groups and Service Clubs to manage and maintain a range of local facilities with limited or no Council Financial support, or in partnership with Council. These facilities include the Inverell Pioneer Village and National Transport Museum, Inverell Rugby Park, Kamilaroi Oval, the Inverell Gun and Rifle Clubs, Lion's Park, and the significant number of Village Halls and Reserves;

o Council has established a Policy of continuously reviewing its Road Classifications based on Road Usage Patterns. This has resulted in Council no longer maintaining some sections of Roads which are solely contained within and only service expanded Rural Properties and National Park Areas. The Cost savings have been then utilised for Road Maintenance activities on higher usage roads, particularly those roads which have seen an expansion in Heavy Transport use. In respect of Heavy Transport use Council receives ongoing requests to have further Rural Roads opening up to B-Double access, however, Council has had to deny these requests to this point as Council has not had funding available to be able to consider these requests which result in Road Upgrade costs and a higher maintenance burden.

o Council has and continues to partner with Local Land Services, the community and other organisations to complete major projects such as the upgrade of the Macintyre River and River Bank areas through Inverell, as a means of delivering strong community outcomes within Council's limited revenue base;

o Where possible Council also works with its neighbouring Councils to ensure Service Delivery costs are minimised. This includes joint purchasing, joint grant applications, joint promotional and community activities, and joint training. One recent major initiative was the Northern Lights Energy Efficient Street Lighting Program that saw seven of the regions Council working together to obtain supporting grant funding and deliver energy efficient LED Street Lighting to the entire region.

• Council has continued to embrace new Information Technology as a means of achieving ongoing efficiency and effectiveness gains. Works Staff now utilise mobile technology in their day to day activities for works scheduling and in addressing Community complaints. Council has continued to minimise its Administration/Printing and Stationery Costs through the production and distribution of electronic Media including its Business Papers;

• Council has implemented a range of Optic Fibre and Microwave Data Link Technologies for its numerous remote sights/locations to minimise its data and communication costs. Annual saving of $20K.

Council has also reviewed Staff Numbers in all service areas and reduced staff numbers through natural attrition where possible, impacting some existing service levels. Examples of the savings include 3 less Library Staff (but reduced opening hours at Library), 3 less Administration Staff, 2 less Directors, transferred Linking Together Centre and Connections Disability Staff to Best Employment, 1 less Storeman and 2 less Council owned motor vehicles.

These very substantial efficiency/effectiveness gains are the major factors that have resulted in Council's Operating Performance Ratio Benchmark improving from its past negative result to meet the FFF Program requirements of the Benchmark Ratio being > 0.00% over a three year average, despite less that adequate revenue increases.

REVENUE STRATEGIES IMPLEMENTED

During the period since 2009, Council has also focused on its Revenues as stated in Section 3.1. Council has annually reviewed its "Fees and Charges" and imposed an annual 3.0% increase in General non-statutory Fees. Council has where possible introduced new charges, particularly in the area of Waste Management and Stormwater Management. The Waste Management Charges $629K p.a. and Stormwater Management Charges income $139K p.a. can only, however, be utilised in those specific areas.

In raising Council's other General Fund Fees and Charges Council has had to consider the Communities capacity and willingness to pay. For example Council's Town Hall Hire Fees now recoup 33% of Town Hall operating costs, however, this fee increase is an ongoing source of community complaint. Council has increased its Plan Printing and Photocopy Charges to include Equipment Replacement Component (fees doubled, but for example the large plan printer (only facility in Inverell) had to be replaced in 2016 at a cost of $60K). Council has reviewed and increased its sporting field fees on a continuing basis, however, this too has been met with some resistance, for example, the Inverell Touch Football Competition being moved to a non-Council owned facility.

Council has reviewed its Land and Building Rentals, where possible moving them to full commercial rates gaining an additional $8K per annum. Surplus Assets have also been disposed of and an annual review is now undertaken of Council's Land Bank.

In respect of Revenue it is advised that during the period since 2009 the NSW Roads and Maritime Service (RMS) have reviewed its Road Maintenance and Renewal Contracts with Council. As a result Council now no longer makes a profit on the Contract Works it undertakes for RMS. Council previously used these profits to supplement the Shire Road Maintenance and Renewal Program noting that Council has the longest Regional Road Network of any NSW Council and a vast local Road Network. That said the ongoing undertaking of these works for the RMS helps produce further economies of scale into Council's Works Programs and provides additional local employment.

In 2013 Council employed a part-time Grants Officer. Council has been successful in attracting grants totalling $13.6M over the period 2012 - 2016 for Council and Community facilities, plus a further $6.7M for works on the State owned Gwydir Highway. This Officer now also fulfils the position of Manager Integrated Planning with Council. Council is careful in considering the long term consequences on Council's sustainability of Grants for new Infrastructure which has an additional ongoing maintenance cost.

As can be expected these grants are largely Specific Purpose Grants and cannot be utilised to address the recurrent expenditure needs identified in respect of the proposed SRV. Little Grant Funding is available for the renewal and upgrade of the Shire's vast road network or to fund recurrent budget deficits.

Council continues to investigate its existing and new possible revenue sources.

8 List of attachments

The following is a list of the supporting documents to include with your application.

Some of these attachments will be mandatory to all special variation applications (eg, extracts from the Community Strategic Plan).

Other attachments will be required from some, but not all, councils. For example, extracts from the Asset Management Plan would be required from a council seeking approval of a special variation to fund infrastructure.

Councils should submit their application forms and attachments online through the Council Portal in the following order. Councils may number the attachments as they see fit.

Item	Included?
Mandatory forms and Attachments	
Part A Section 508A and Section 508(2) Application form (Excel spreadsheet)	✓☐
Part B Application form (Word document) – this document	✓☐
Relevant extracts from the Community Strategic Plan	✓☐
Delivery Program	✓☐
Long Term Financial Plan with projected (General Fund) financial statements (Income, Cash Flow and Financial Position) in Excel format	✓☐
NSW Treasury Corporation report on financial sustainability	✓☐
Media releases, public meeting notices, newspaper articles, fact sheets relating to the rate increase and proposed special variation	✓☐
Community feedback (including surveys and results if applicable)	✓☐
Hardship Policy	✓☐
Resolution to apply for the proposed special variation	✓☐
Certification (see Section 9)	✓☐
Other Attachments	
Relevant extracts from the Asset Management Plan	✓☐
Past Instruments of Approval (if applicable)	☐
Resolution to adopt the revised Community Strategic Plan (if necessary) and/or Delivery Program	✓☐
Other (please specify)	✓☐

9 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: INVERELL SHIRE COUNCIL

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

General Manager (name): PAUL HENRY PSM

Signature and Date: 10 February, 2017

Responsible Accounting Officer (name): KEN BEDDIE

Signature and Date: 10 February 2017

Once completed, please scan the signed certification and attach it as a public supporting document online via the Council Portal on IPART's website.