

Independent Pricing and Regulatory Tribunal
New South Wales

Special Variation Application Form – Part B

For 2019-20

Lithgow City Council

Date Submitted to IPART:

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Tribunal Members

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chair

Mr Ed Willett

Ms Deborah Cope

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

Scott Chapman (02) 9290 8449



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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* (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 in the same rating year/s, the council may submit a combined special variation and minimum rate application (see Chapter 5 for circumstances where a combined application may be submitted). However, this must be clearly identified and addressed in the special variation application. A separate Minimum Rate application form (Part A and Part B) will need to be submitted where a council proposes increases to its minimum rates above the statutory limit for the first time, without increasing other ordinary rates in the same rating year. Councils are encouraged to discuss their proposed application with IPART as soon as possible.

As outlined in the Guidelines, new councils created in 2016 (apart from Mid-Coast Council) will be ineligible for special variations for the 2019-20 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 30 November 2018.

Any councils that did not notify but intend to apply for a special variation for 2019-20 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 11 February 2019**.

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



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. We generally request supporting documents of the same type to be combined and most supporting document categories have a maximum number of 5 documents allowed. 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.

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 submitting an 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". The purpose should be directly related to the special variation being sought and should be further detailed in the sections below.

| | |
|--------------------------------------|-------------------------------------|
| Maintain existing services | <input checked="" type="checkbox"/> |
| Enhance financial sustainability | <input checked="" type="checkbox"/> |
| Environmental services or works | <input type="checkbox"/> |
| Infrastructure maintenance / renewal | <input checked="" type="checkbox"/> |
| Reduce infrastructure backlogs | <input checked="" type="checkbox"/> |
| New infrastructure investment | <input type="checkbox"/> |
| Other (specify) | <input type="checkbox"/> |

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 proposed Special Rate Variation is an important step to help maintain and manage our current assets to ensure that we deliver services in line with community expectations and remain financially sustainable into the future.

Like many other NSW Councils, our roads, footpaths, buildings, drainage and other community assets are ageing and need to be renewed or upgraded. We know that our community places a high value on these assets, in particular our road network. Our assets in their current state are continually deteriorating and need costly maintenance. To improve our public assets we need to spend more money on maintaining and renewing these assets to ensure that they meet the needs of our community. The additional expenditure will also enable Council to meet the OLG asset renewal and maintenance benchmarks over the term of the Long Term Financial Plan (LTFP).

In 2014 the NSW State Government initiated its 'Fit for the Future' (FFTF) local government reform program that required all NSW councils to submit a proposal demonstrating plans to achieve long term financial sustainability and meet seven asset and financial benchmarks.

As a part of our 'Fit for the Future' process we reviewed the condition of our assets and detailed long term financial modelling. We currently spend around \$19 million on the maintenance and renewal of community assets each year; however, we have a funding gap and need to invest an additional \$1.1 million per year. This additional investment will ensure that the number of assets in poor condition does not continue to grow.

On 6 December 2016, Council received a 'Notice of intention' to issue a Performance Improvement Order to Lithgow City Council under Section 438A of the Local Government Act 1993 from the, then Minister for Local Government, the Hon. Paul Toole, MP. The Minister identified a number of reasons for issuing the Notice including:

- Failure by Council to follow the principles of sound financial management with respect to ensuring that Council's forecast spending is responsible, sustainable, aligning general revenue and expenses.
- Reporting of annual deficits in the financial statements over the past five financial years.
- Consistently forecasted deficits in Council's LTFP for the next ten years until 2024-25.
- Council's FFTF reassessment proposal forecast to meet the financial sustainability criteria relied heavily on two proposed SRV's.
- Council did not have a documented strategy to meet its forecast operating performance ratio to ensure its long term financial sustainability did not include a SRV.
- Council did not provide substantive evidence of strategies implemented since the IPART review to move Council towards long term financial sustainability.
- The financial sustainability ratios forecast in Council's FFTF reassessment submission (General Fund) did not align with the ratios forecast in Council's LTFP (Consolidated Fund).

In response, Council engaged the services of specialist consultants, Morrison Low to develop a Performance Improvement Plan that would position Council for a sustainable future by:

- Reviewing and developing Council's LTFP to incorporate a Fit for the Future Improvement Plan and strategies.
- Reviewing Council's Asset Management Plan and Financial Statements Assets Special Schedule 7.
- Preparing a Financial Management Maturity Assessment to understand Council's Financial Management Maturity Status and developing an Improvement Plan with specific priority actions.

The improvement work was completed as part of Council's Integrated Planning and Reporting Framework (IPR) and the actions identified support the following objective in the Community Strategic Plan 2030:

- *GL2 – Moving towards a sustainable Council.*

Strategies identified in the Fit for the Future Improvement Plan are included in Council's Supplementary 2018/19 Operational Plan. In addition to this the following actions have commenced to improve service delivery, cut costs and reduce reliance on rates revenue:

- Implementation of a range of initiatives to generate operational efficiencies.
- Review of the 2018/19 fees and charges to optimise revenue.
- Service reviews to determine affordable levels of service (commenced in 2018/19).
- Implementation of asset management and financial management improvement

plans.

- Applications for grants and seeking corporate sponsorship.

The 2017-2027 LTFP developed by Morrison Low identified the need for a new permanent SRV to commence upon the expiry of the existing SRV on 1 July 2019 (2017 LTFP Scenario 3). The 2019-2029 LTFP Scenario 3 reiterated the need for a continuing SRV.

The options considered in both the 2017-2027 and 2019-2029 Long Term Financial Plans were:

- Scenario 1 – Base case

The base case represents the continuation of 'as is' without applying a range of improvement strategies and without the addition of extra asset renewal expenditure to ensure the FFTF asset ratios are achieved. This includes the loss of revenue when the existing SRV for an infrastructure levy ceases in 2019.

- Scenario 2 – Base case with improvements

This takes the base case and adjusts the financial projections based on a number of improvement opportunities that have been identified. With the improvements proposed, Council is able to meet the operating performance ratio for the consolidated entity under this scenario but does not have sufficient funds for asset renewal nor to clear the infrastructure backlog. This means that Council is not Fit for the Future in Scenario 2.

- Scenario 3 – Sustainable assets

This takes the revised financial projections in Scenario 2 but also provided for a new SRV of 9% in 2019/20. This represents the continuation of the existing 4.77% SRV when it ceases, on the assumption that a new permanent SRV of the same amount will be applied for and approved commencing in 2019/20. It also includes an additional 4.23% above the current rates charged to residents to provide extra financial capacity so that Council is able to meet the financial sustainability ratios. Scenario 3 also includes significant, additional, asset renewal expenditure over ten years to ensure that the asset benchmarks are met or trending toward meeting the ratios during the term of the LTFP for the general fund.

This scenario enables Council to become financially sustainable.

The 2017-2021 Long Term Financial Plan developed by Morrison Low was adopted for exhibition as part of Council's Integrated Planning and Reporting Framework at the Extra Ordinary Meeting held on 15 May 2017. On page 10 of the report to Council it was noted that:

"The Long Term Financial Plan indicates that in order for Council to remain sustainable, it will be necessary to seek a Special Rate Variation (SRV) following cessation of the current SRV in 2019."

At the 23 April 2018 meeting, Council resolved to "confirm Long Term Financial Plan Scenario 3 as its preferred option for financial sustainability and notify the Independent Pricing and Regulatory Authority (IPART) of its intention to prepare an Application for a Special Variation" (Minute No. 18-96).

At the 26 November 2018 meeting, Council resolved to "notify the NSW Independent Regulatory and Pricing Tribunal of its intention to lodge an application under Section 508(2) of the NSW Local Government Act for a permanent 9% increase in 2019/20 (to replace the expiring 4.77% Special Rate Variation in 2019/20) for the primary purposes (based on IPART categories) of:

- a. Improvements in financial sustainability; and
- b. Reduction in backlogs for asset maintenance and renewal." ((Minute No. 18-96).

At the 26 November 2018 meeting, the Council also resolved to place updated IP&R documents on public exhibition.

2.3 Existing s508A multi-year special variation

You should complete this section if the council has an existing s508A multi-year special variation instrument that will continue to apply in the period for which the council is seeking further changes to its general income.

If IPART decides to approve an increase to the council's general income in response to this application, it will vary the existing s508A multi-year special variation instrument. Therefore, by completing this application form and seeking a further change to your revenue path, you are in effect applying for a variation to that instrument.

When addressing the assessment criteria in the remainder of this application form, please take care to be clear about whether the information you are providing is in relation to the incremental increase being sought by the council or the total cumulative increase that may be reflected in a varied instrument (this would include the aspects of the application that have previously been approved by IPART).

Does the council have a s508A multi-year special variation instrument that will continue to apply in the period for which the council is seeking further increases to its general income

Yes ☐ No ☒

If Yes:

- a) Over what period does the existing instrument apply? From _____ to _____
- b) What are the approved percentages for each year of the existing instrument? _____
- c) Briefly describe any significant changes of relevance since you submitted the application for the existing instrument.

N/A

2.4 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 ☒

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.*

The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need /desire for service levels/projects and limited council resourcing alternatives.

Evidence could also include the analysis of the council's financial sustainability conducted by Government agencies.

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

In its application, the council should summarise and explain:

- ▼ How it 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 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.

Community Needs

2016 Community Satisfaction Survey

In April 2016, Council engaged Micromex Consulting to undertake a community survey to identify the community's needs and desires in relation to service delivery and asset maintenance and their satisfaction with Council.

A random telephone survey of the Lithgow community to measure their satisfaction with Council service levels was conducted with 407 resident interviews conducted providing a representative sample of the community. Survey respondents were asked a series of questions to identify:

- Satisfaction with Council's performance overall;
- Drivers of community satisfaction;
- Importance and satisfaction with Council provided services and facilities;
- Relative importance of Council provided services and facilities; and
- Satisfaction with customer service levels from Council staff.

The survey found that 24% of residents felt that there should be more *"consultation/interactions/transparency with the community"*. The Community Strategic Plan 2030 acknowledges the community's concerns and in response, under the Key Theme Responsible Governance and Civic Leadership has developed the Strategic Direction – *GL1 – Our Council Works with the Community*. This is supported by Delivery Program Action *GL1.1 – Our community is involved in the planning and decision making processes of Council*. Ensuring that *"new plans and strategies are developed in line with the community's needs"* is a measure of this Strategic Direction in the Community Strategic Plan.

The survey explored resident response to 67 Service areas provided by Council.

Key findings from this survey

As with many regional LGAs, there are concerns about the current and future opportunities in regard to local employment, as well as attracting new business to the area.

There are also concerns around renewing and maintaining the local infrastructure, the management and process of development, as well as the provision of community facilities for residents.

Overall, 83% of residents were at least 'somewhat satisfied' with Council's performance. This is in line with the NSW category benchmark. Significantly, residents living in the 'Rural North' region were palpably less satisfied with the overall performance of the council.

Council is providing at least a moderate level of satisfaction for 56 out of the 67 services areas.

The top 5 drivers of overall satisfaction account for just under 20% of overall satisfaction. These drivers included encouraging local business, town roads, community consultation, council responsiveness, and the provision of community festivals and events.

The key challenges mentioned were:

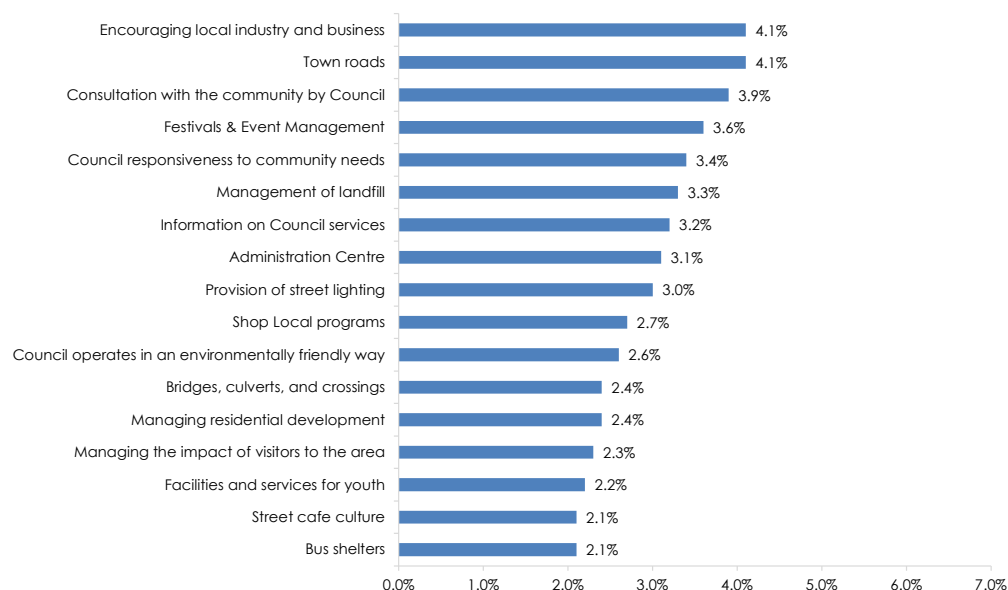
- Generating local employment opportunities
- Encouraging new business to the area
- Improving/maintaining local infrastructure, i.e. roads, public transport.

A review of the largest performance gaps identified that all of the services or facilities have been rated as 'very high' to 'extremely high' in importance. Resident satisfaction for all of these areas is between 2.56 and 2.91, which indicates that resident satisfaction for these measures is 'moderately low'.

| Ranking | Service/ Facility | Importance Mean | Satisfaction Mean | Performance Gap |
|---------|--|-----------------|-------------------|-----------------|
| 1 | Encouraging local industry and business | 4.81 | 2.56 | 2.25 |
| 2 | Facilities and services for youth | 4.49 | 2.77 | 1.72 |
| 3 | Council responsiveness to community needs | 4.56 | 2.85 | 1.71 |
| 4 | Managing commercial development | 4.39 | 2.75 | 1.64 |
| 5 | Rural roads | 4.24 | 2.62 | 1.62 |
| 6 | Consultation with the community by Council | 4.47 | 2.91 | 1.56 |
| 7 | Town roads | 4.46 | 2.91 | 1.55 |
| 8 | Development approvals process | 4.20 | 2.75 | 1.45 |

The table below indicates that 'Transport Infrastructure' (town roads, bridges, culverts, and crossings, bus shelters) and Council responsiveness to community needs are among the top 17 indicators which contribute to over 50% of overall satisfaction with Council.

These Top 17 Indicators Contribute to Over 50% of Overall Satisfaction with Council



The contributors to satisfaction are not to be misinterpreted as an indication of current dissatisfaction

2018 Asset Management Study Survey

In 2018 Council conducted further community consultation in order to identify and inform their long-term management/resourcing strategies for the assets of the LGA.

Specifically the research quantitatively explored:

- Relative priority and satisfaction of key community assets.
- The level of investment residents believe should be dedicated to different community assets, both before and after receiving an information pack.
- Understanding support for Council's funding position in regards to key asset areas.
- Identifying any community endorsed revenue options for Council to explore in order to address funding requirements.

The Asset Management Study consisted of a three stage methodology:

- **Stage 1:** Initial recruitment of 631 Lithgow LGA residents selected by means of a computer based random selection process using Sample Pages, collection of several 'pre' measures.
- **Stage 2:** Mail-out by Council of an information pack explaining the various asset management options.
- **Stage 3:** Recontact telephone interviews with 401 of the initial 631, collection of numerous 'post' measures.

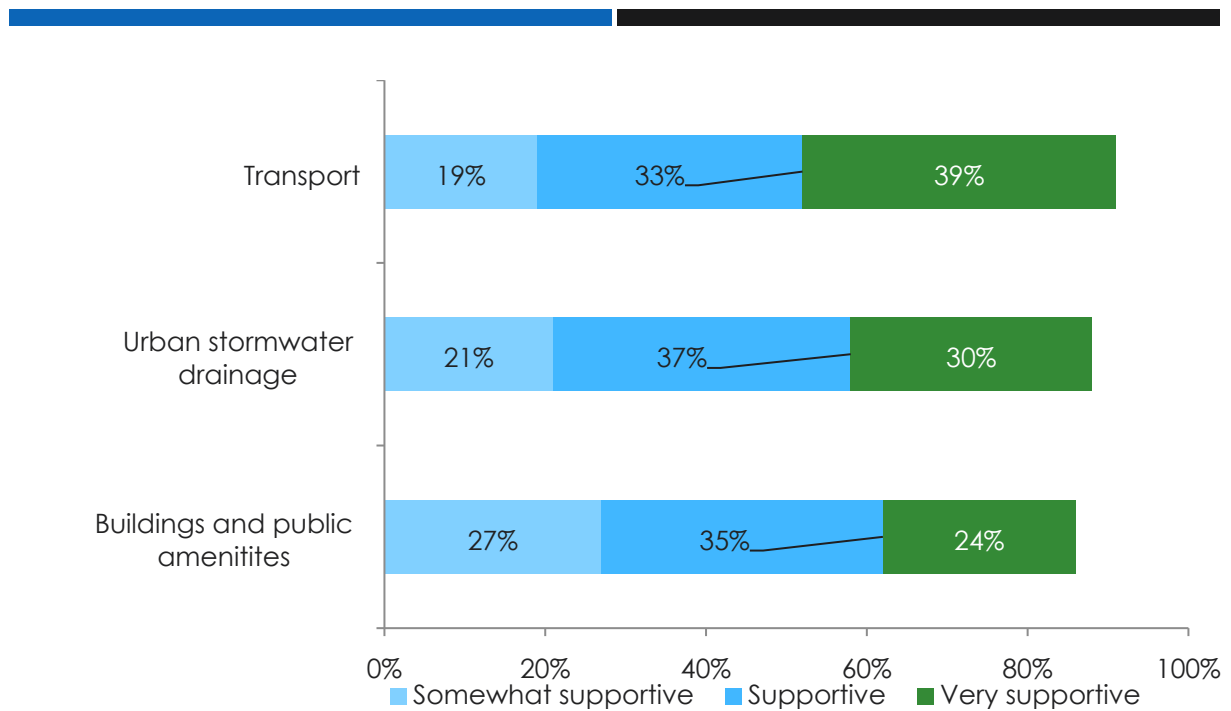
Dashboard of Key Findings



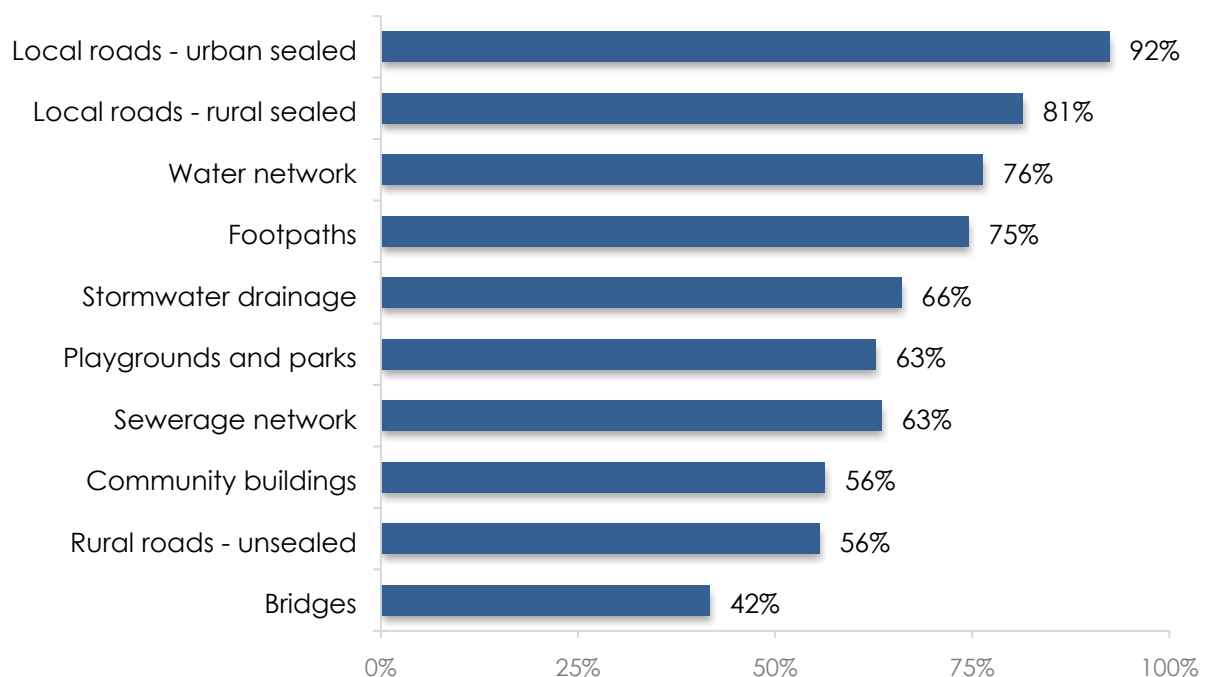
Community satisfaction is summarised as:

- Overall satisfaction with the performance of Council (pre-info pack): 66% at least somewhat satisfied.
- Overall satisfaction with the performance of Council (post-info pack): 76% at least somewhat satisfied.
- Satisfaction with the quality of community assets: 80% at least somewhat satisfied.
- Satisfaction with the community consultation: 91% at least somewhat satisfied.

The level of investment that residents believe Council should be dedicating to 6 of the 10 community assets significantly differed after reading the information pack. Residents were significantly more likely to state that there should be more investment in the recontact survey for 'stormwater drainage', 'rural roads – unsealed' and 'bridges', but significantly less likely to state there should be more investment in the 'water network', 'footpaths' and 'playgrounds and parks'.



Overall, residents are supportive of investment increasing for all 3 types of services/facilities, though support was highest for 'transport', with 91% of residents being at least 'somewhat supportive'



'Local roads- urban sealed' were the council asset the largest proportion of residents consider to be a priority (92%), followed by 'local roads- rural sealed' (81%). 'Bridges' was the council asset the lowest proportion of residents stated was a priority for them (42%).

Community expectation is that Council will continue to deliver a broad range of services including:

- parks, sports grounds, playgrounds and community halls;
- libraries, arts and culture;
- community development services for children, youth, older people, people living with a disability and Aboriginal and Torres Strait Islander People;
- public and environmental health;
- environmental sustainability projects and invasive species management;
- transport services including roads, footpaths, car parks, road safety and traffic facilities;

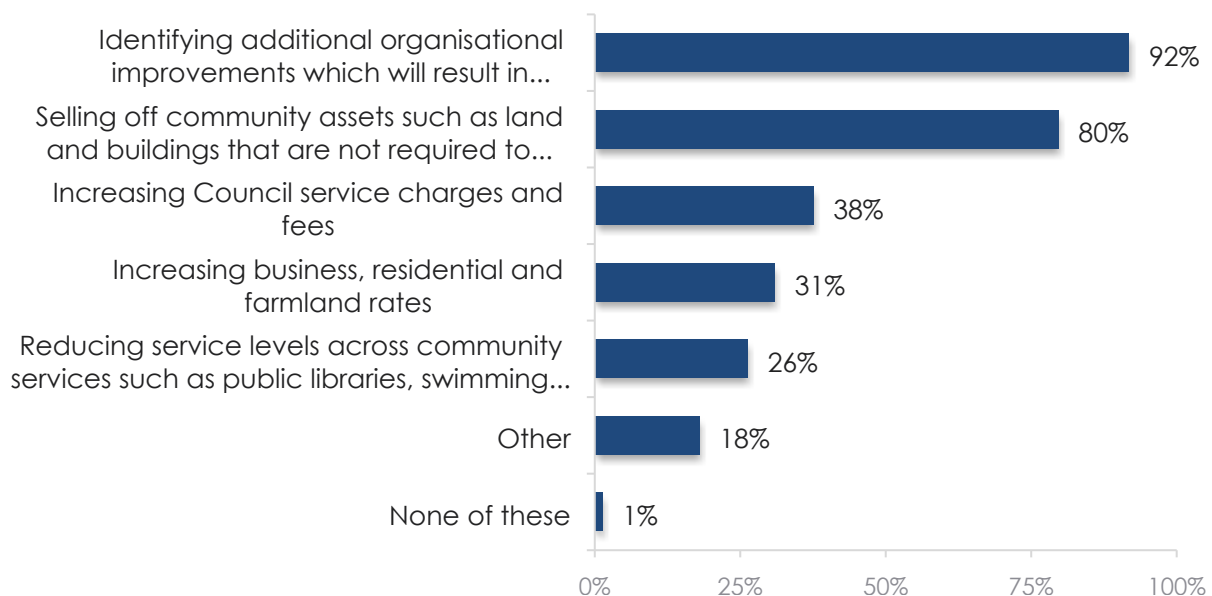
- business development, events and tourism;
- development services, such as development applications and certification;
- land use and natural environmental planning;
- stormwater and flood management;
- emergency management;
- community and council strategic planning;
- executive, communication and support service

This is further supported by the Community Submissions received in response to the SRV. Of the '28 written submissions received in response to the proposed SRV, most provided a list of requests for services/issues/complaints that they felt were needed to be addressed in the Lithgow LGA.

The cost of providing all of these services raises challenges around service delivery and the potential cost of the delivery of those services. However, in response to community need under the key theme “*Developing our Built Environment*” in the Community Strategic Plan 2030 Council acknowledges the importance of maintaining community assets. The Community Strategic Plan, strategic direction – *BE1 – Our built environment blends with the natural and cultural environment* is supported by Delivery Program Action *BE1.4 – Match infrastructure with development*. Council notes that the benefits of ensuring we match infrastructure with development are:

- Commercial and industrial buildings meet the needs of the community and service Council operations.
- Increased satisfaction with service levels for road maintenance and development.

This will be measured by: the number of commercial premises occupied and length of sealed and unsealed roads.



The surveys show that community expectation is for Council to be “responsive to community needs” however, 92% of residents would support Council identifying additional organisational improvements that result in efficiencies, and 80% would support selling off community assets. Balancing community expectation and demand whilst delivering organisational improvement and efficiencies is a challenge for Council.

52% of residents already accept that they need to pay directly (via rates: 31%) or indirectly (via service charges and fees: 38%) to allow council to meet these funding requirements in order to improve the quality of community assets.

Long Term Financial Plan (Pages 4-6)

Lithgow City Council has a strong balance sheet, however, Council has not been able to generate an operating surplus in the base case Scenario 1. Therefore, action is required to ensure that Council can demonstrate that it is financially sustainable. We have seen significant increases in the depreciation expense due to asset revaluations and we have now found that some of the assumptions used and the way some expenditure has been classified in the past has tended to overstate our operating costs and thereby overstate the size of our annual operating deficits.

Due to projected constraints on revenue generation, Council continually strives to achieve efficiencies and find better ways to do things. Part of the FFTF process was the identification of a number of improvement opportunities and some of these have been actioned including savings generated on our litter bin collections, cleaning, electricity costs and insurance. These were all achieved by changing the way we do things and by reviewing the level of deductibles on insurance policies.

We have also identified that some asset renewal expenditure has been incorrectly charged as an operating expense in previous years (again overstating our annual operating expenditure). The cost and budget for this has now been moved into our capital expenditure budgets in Scenario 2, thereby providing a further improvement to our actual starting position.

While these actions are of significant benefit to the operating position and therefore to the Operating Performance Ratio, these measures alone do not make Council sustainable in the medium to long term under Scenario 2 (Improvements).

The third of our scenarios referred to as the Sustainable Assets Scenario, looks in further improvements and also identifies the need to reapply for a special rate variation (SRV) when the existing 4.77% SRV for infrastructure expires in 2019. If Council is successful in an application for a new permanent SRV of 9% plus the rate peg of 2.7% (11.7% in total for 2019/20) in 2019/20, the proposed improvement measures in this plan will enable Council to be financially sustainable and to meet all of the FFTF ratios over the term of this LTFP. The proposed SRV represents the continuation of the existing 4.77% SRV together with a further 4.23% (9% plus the 2.7% rate peg in 2019/20) to ensure Council becomes sustainable by meeting all of the fit for the future benchmarks by the end of the LTFP period. Council will continue to consider further measures to improve the financial situation and reduce the reliance on future SRV applications.

What scenarios have we modelled?

Council considered a range of options and settled on three scenarios or options. The options considered in developing this LTFP were:

- Scenario 1 – Base case

This is the base case and represents the continuation of 'as is' without applying a range of improvement strategies and without the addition of extra asset renewal expenditure to ensure the FFTF asset ratios are achieved. This includes the loss of revenue when the existing SRV for an infrastructure levy ceases in June 2019.

- Scenario 2 – Base case with improvements

This takes the base case and adjusts the financial projections based on a number of improvement opportunities that have been identified. With the improvements proposed, Council is able to meet the operating performance ratio for the consolidated entity under this scenario but does not have

sufficient funds for asset renewal nor to clear the infrastructure backlog. This means that Council is not 'Fit for the Future' in Scenario 2.

- Scenario 3 – Sustainable assets

This takes the revised financial projections in Scenario 2 but also provided for a new SRV of 9% in 2019/20 plus the 2.7% rate peg. This represents the continuation of the existing 4.77% SRV (Infrastructure Levy) when it ceases on the assumption that a new permanent SRV of the same amount will be applied for and approved commencing in 2019/20. It also includes an additional 4.23% above the current rates charged to residents to provide extra financial capacity so that Council is able to meet the financial sustainability ratios. Scenario 3 also includes significant, additional, asset renewal expenditure over ten years to ensure that the asset benchmarks are met or trending toward meeting the ratios during the term of the LTFP for the general fund.

This scenario enables Council to become financially sustainable.

What is the recommended approach and why?

The preferred scenario is that Council seeks a further SRV of 9% when the existing SRV for infrastructure improvements expires in 2019 (Scenario 3). The new SRV in 2019/20 will mean an additional increase of 4.23% for ratepayers at that time. This, when combined with the other improvement measures included in Scenario 2, enables Council to operate with a surplus which provides additional cash resources to help fund extra infrastructure renewals. This enables Council to meet all seven FFTF benchmarks. These results make the Council 'fit' under the existing guidelines.

Council will continue to operate largely within its existing funding levels and implement a number of improvement initiatives, including service reviews to ensure that ratepayers receive the appropriate level of service and that the services are provided in an efficient and cost effective manner.

To minimise its reliance on SRV revenue, the Council initiated a thorough annual review of fees and charges from the 2018/19 year to ensure that the complete costs of providing services are recovered, as appropriate.

Council's policy on loan borrowing is summarised in the LTFP – *"The Council's policy is that the use of debt (borrowings) is appropriate to fund the cost of major new community assets or to smooth the cost of major asset renewals. However, any minor asset acquisitions and a normal level of asset renewals (up to the level of the annual depreciation charge) should be funded out of operating revenues."* Council's borrowing capacity (determined as its ability to service debt within the OLG debt ratios) during the term of the LTFP is consumed by necessary water and sewer infrastructure projects which impact the Council's consolidated financial position.

The proposed special variation impacts the Long Term Financial Plan forecasts for the General Fund by improving the Council's financial position to meet the all of OLG financial performance indicators over the term of the LTFP. The improvement to the General Fund will permit Council to meet the identified needs of the community.

While Scenario 3 does mean that Council will seek another SRV of 9% in 2019/20, the actual impact on ratepayers beyond the forecast rate cap increase is only 4.23%. Instead of a reduction in rates when the ten year infrastructure levy is removed, 2019/20 ratepayers will receive the normal rates cap increase plus a further 4.23% increase in that year.

Scenario 3 places Council in a sound cash position with ongoing capacity to fund asset renewals.

The impact of the proposed SRV is outlined in part A of the application. A summary is provided below:

| Scenario 3 (Sustainable Assets) – General Fund | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Capital Expenditure | 2020 Budget | 2021 Budget | 2022 Budget | 2023 Budget | 2024 Budget | 2025 Budget | 2026 Budget | 2027 Budget | 2028 Budget | 2029 Budget |
| Building and Infrastructure (\$000's) | | | | | | | | | | |
| New Assets | 1,241 | 209 | 214 | 219 | 223 | 228 | 233 | 239 | 244 | 249 |
| Asset Renewals | 11,816 | 12,102 | 10,844 | 12,102 | 11,121 | 11,632 | 12,226 | 11,467 | 11,653 | 12,782 |
| Other Assets (\$000's) | | | | | | | | | | |
| New Assets | 2,297 | 362 | 468 | 294 | 1,151 | 297 | 404 | 440 | 427 | 424 |
| Asset Renewals | 691 | 603 | 717 | 630 | 745 | 660 | 775 | 690 | 775 | 741 |
| Total | 16,045 | 13,276 | 12,243 | 13,245 | 13,240 | 12,817 | 13,638 | 12,836 | 13,099 | 14,196 |

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.

NSW Treasury Corp (TCorp)

In 2013, the NSW Government engaged NSW Treasury Corp (TCorp) to undertake a financial capacity and sustainability review of all NSW Councils. The review considered the councils' financial performance against a range of benchmarks, looking at Councils' borrowing capacity and their financial sustainability. To be considered financially sustainable, councils had to show that they had sufficient revenue to deliver the level of services that the communities expect. The outcome was that each council was provided with a Financial Sustainability Rating (FSR) and financial outlook.

Council was assessed by TCorp as having a **sound** financial sustainability rating with a **negative** outlook. Since this time Council has made submissions and has received assessments under the Fit for the Future (FFTF) process. These assessments have stated that Council is 'not fit' based on the fact that the financial projections were dependent on applications for special rate variations, and the fact that Council's consolidated operating performance ratio would be negative in 2020/21. Concern was also raised at that time about the quality of Council's financial projections and its financial management principles and practices.

In its review the TCorp report (pp4-5, 28 & 35) noted that the Council has been well managed during the review period based on the following observations:

- Council's underlying operating results, as measured by EBITDA has improved by 336.3% (\$6.5m) over the review period. This is driven by an SRV to fund infrastructure improvements beginning in 2010 for a period of 10 years
- Annual depreciation expense increased substantially by 41.6% (\$2.4m) from 2010 to 2011 due to Asset Revaluations
- Council had total borrowings of \$18.9m in 2012 representing 5.3% of Net Assets
- Council's liquidity ratios and credit metrics were above or close to benchmark over the review period.

The Council reported \$63.8m of Infrastructure Backlog in 2012 which represents 20.8% of its infrastructure asset value of \$307.5m. Other observations include:

- Council's Capital Expenditure Ratio, and Building and Infrastructure Asset Renewal Ratio were above benchmark during the review period
- Asset Maintenance Ratio was close to benchmark for the last three years
- 54.5% of the Backlog value relates to public roads assets and 25.2% relates to sewerage assets

The key observations from the TCorp review of Council's 10 year forecasts for its General Fund were:

- The forecast shows that operating deficits are expected over the forecast period, when capital grants and contributions are excluded.
- Council is forecasting sound liquidity levels over the forecast period
- Council is forecasting improving debt servicing ratios as debt levels reduce
- Council is forecasting a drop in capital expenditure which is well below the benchmark over the forecast period

In TCorp's view, the Council had the capacity to undertake additional borrowings of up to \$7.4m. In the period since the TCorp review was completed, this borrowing capacity has been consumed, mainly for water and sewer infrastructure projects.

In respect of the long term Sustainability of the Council TCorp's key observations were:

- Council is currently in a sound financial position with a focus on asset renewal but this is forecast to deteriorate
- Council forecasts continuous operating deficits (excluding capital grants and contributions) that will increase pressure to maintain existing services
- Council's current LTFP shows that the level of capital expenditure compared to depreciation expense is forecast to decrease over time to levels below what is required to maintain assets at an acceptable standard
- Council has the capacity to utilise further borrowings in the future

In respect of the Benchmarking analysis TCorp compared the Council's key ratios with other councils in OLG group 4. The key observations were:

- Council's financial flexibility as indicated by the Operating Ratio is above the group average but below the benchmark
- Council's Own Source Operating Revenue Ratio is below the group average

- Council's DSCR and Interest Cover Ratio have been below the group averages but above the benchmarks. These ratios are expected to continue in the medium term to be above the benchmarks
- Council was in a sound liquidity position and this is expected to continue in the medium term
- Council's Infrastructure Backlog is higher than its peers.
- Council's Capital Expenditure Ratio and Asset Maintenance Ratio were at or above the group averages and close to or above the benchmarks. It had the highest Building and Infrastructure Asset Renewal Ratio in the peer group

TCorp believed that Council was, at the time of writing the report, in a **sound but deteriorating financial position**. The historical financial performance of Council has been moderate with operating deficits over most of the review period. Council's liquidity position was sound and credit metrics were sufficient to service current debt levels. Council had a relatively high Infrastructure Backlog but has an SRV in place till 2020 to fund infrastructure improvements, and high capital and renewal ratios show that Council is focused on addressing the backlog. Based on the current LTFP, Council is forecasting to be in a deteriorating operating position with significant operating deficits and insufficient capital spending over the forecast period.

In considering the long term Sustainability of the Council, TCorp made the following comments:

- Council's operating performance has been satisfactory over recent years but is forecast to decrease as a result of slow revenue growth forecast being outpaced by expense growth. Council forecasts operating deficits (excluding capital grants and contributions) that will exert pressure to maintain existing service levels
- While Council has been spending enough on asset renewals in recent years compared to benchmark, their LTFP indicates that capital spending will be insufficient in the future which could lead to a reduction in the quality of the assets and ultimately service standards.
- Council's liquidity position has been sound and is expected to remain sound over the forecast period
- Council has the capacity to utilise further borrowings that could assist for funding long term capital projects and reducing the Infrastructure Backlog.

Furthermore, the Report highlighted some risks including an ageing population, economic growth and natural disaster. These are areas which Council has been working on addressing through the development and implementation of the Ageing Strategy and a suite of Economic Development Strategies in recent years.

In concluding, the TCorp report noted that while they considered Council to be in a sound financial position this position is forecast to deteriorate.

TCorp's recommendations were based on the following key points:

- While Council had improving operating results over the review period, it is forecasting large operating deficits throughout the forecast period.
- Council had sound liquidity levels and this is forecast to continue.
- Council's Interest Cover and Debt Service Cover Ratios improved over the review period and continue to improve over the forecast period.
- Council has been dependent on external revenue sources such as State and Federal grants and any material adverse change to the levels of grants receivable could weaken Council finances.

- While the Infrastructure Backlog Ratio has declined over the review period and asset renewal and capital expenditure has been strong, Council is forecasting reducing levels of capital expenditure which may lead to a deteriorating quality of its infrastructure assets.

TCorps key findings for NSW Councils were that:

- Operating deficits are unsustainable & at least breakeven annual operating positions are essential
- There is a large annual asset maintenance gap
- The infrastructure backlog has yet to be addressed
- Regional performance varies
- Rate increases must meet underlying costs as well as annual growth in expenditure
- Medium term pricing paths are needed for ongoing adjustments to rates and charges
- Asset management planning must be prioritised
- Councillor and management capacity must be developed
- The system and guidelines for access restricted funds should be reviewed
- Increased use of borrowings.

Since the completion of the TCorp review, considerable effort has been made to improve the Council's financial and asset management systems and processes.

On 6 December 2016, Council received a 'Notice of intention to issue a Performance Improvement Order to Lithgow City Council under Section 438A of the Local Government Act 1993' from the, then Minister for Local Government, the Hon. Paul Toole, MP.

The Minister identified the following reasons for issuing the Notice:

- The reassessment of Council's Fit for the Future (FFTF) proposal by the Office of Local Government identified a failure by Council to follow the principles of sound financial management with respect to ensuring that Council's forecast spending is responsible, sustainable, aligning general revenue and expenses.
- Council had reported annual deficits in its financial statements over the past five financial years, and consistently forecasted deficits in its Long Term Financial Plan (LTFP) for the next ten years until 2024-2025.
- Council's FFTF reassessment proposal forecast to meet the financial sustainability criteria relied heavily on two proposed Special Rate Variations (SRV's). Council did not have a documented strategy to meet its forecast operating performance ratio to ensure its long term financial sustainability which did not include a SRV.
- Following IPART's determination that Council is 'not fit', Council did not provide substantive evidence of strategies implemented since the IPART review to move Council towards long term financial sustainability.
- Following re-assessment by the Office of Local Government against the IPART Criteria, it was identified that financial sustainability ratios forecast in Council's FFTF reassessment submission (General Fund) did not align with the ratios forecast in Council's LTFP (Consolidated Fund).

Fit for the Future Improvement Plan

In response, Council engaged the services of specialist consultants, Morrison Low to develop a Performance Improvement Plan that would position Council for a sustainable future by:

- Reviewing and developing Council's Long Term Financial Plan (LTFP) to incorporate a Fit for the Future improvement plan and strategies.
- Reviewing Council's Asset Management Plan and Special Schedule 7.
- Preparing a Financial Management Maturity Assessment to understand Council's Financial Management Maturity Status and developing an Improvement Plan with specific priority actions.

This work was completed as part of Council's Integrated Planning and Reporting Framework (IPR); under the key theme Responsible Governance and Civic Leadership – Strategic Direction *GL2 Moving towards a sustainable council* which is supported by Delivery Program Action *Revenue opportunities, costs savings and/or efficiencies are achieved*. Following community consultation of the draft Integrated Planning and Reporting Framework suite of documents during the exhibition period in May/June 2016, the documents were reported to Council and the Office of Local Government within the required timeframe of 30 June 2016.

The work undertaken by Morrison Low to position Council for a sustainable future provides a range of long term benefits and value for Council and the community in the form of:

1. A robust financial plan with improvement options for longer term sustainability.
2. An opportunity for Council to provide improved services to the community.
3. Good practice financial management governance, procedures and process.
4. It satisfies the additional Integrated Planning and Reporting requirement for the Asset Management Plan and asset service levels.
5. Building confidence in the community that Council is financially sustainable to deliver on the Community Strategic Plan outcomes, key programs and projects.
6. Meeting all statutory obligations and being in a position to maintain stewardship of the community's resources.
7. Ensuring transparent annual planning and quarterly reporting processes through the IPR Framework which shows the implementation of the Performance Improvement Plan.

Morrison Low identified 37 recommendations as part of the Financial Management Maturity Assessment for Council to investigate and implement. An Internal Finance Committee made up of representation from across Council met weekly to review the Business Improvement processes identified.

During 2017/18, Council undertook asset renewal expenditure across all asset classes as part of the Financial Management Improvement plan and Financial Management Maturity Assessment. Implementation of the Financial Improvement Plan is ongoing, with Council now having completed 32 of the 37 actions. Progress continues to be reported monthly to the Office of Local Government.

Financial Sustainability

Council considered a range of options and settled on three scenarios or options. The options considered in developing this LTFP were:

• Scenario 1 – Base case

This is the base case and represents the continuation of 'as is' without applying a range of improvement strategies and without the addition of extra asset renewal expenditure to ensure the FFTF asset ratios are achieved. This includes the loss of revenue when the existing SRV for an infrastructure levy ceases in 2019.

• Scenario 2 – Base case with improvements

This takes the base case and adjusts the financial projections based on a number of improvement opportunities that have been identified. With the improvements proposed, Council is able to meet the operating performance ratio for the consolidated entity under this scenario but does not have sufficient funds for asset renewal nor to clear the infrastructure backlog. This means that Council is not Fit for the Future in Scenario 2.

• Scenario 3 – Sustainable assets

This takes the revised financial projections in Scenario 2 but also provided for a new SRV of 9% in 2019/20. This represents the continuation of the existing 4.77% SRV (Infrastructure Levy) when it ceases on the assumption that a new permanent SRV of the same amount will be applied for and approved commencing in 2019/20. It also includes an additional 4.23% above the current rates charged to residents to provide extra financial capacity so that Council is able to meet the financial sustainability ratios. Scenario 3 also includes significant, additional, asset renewal expenditure over ten years to ensure that the asset benchmarks are met or trending toward meeting the ratios during the term of the LTTP for the general fund.

This scenario enables Council to become financially sustainable.

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 performance ratio excluding capital items (ie, net operating result excluding capital grants and contributions as percentage of operating revenue excluding capital grants and contributions).
- ▼ Own source revenue ratio (ie, total operating revenue excluding capital items as a percentage of total operating revenue including capital items).
- ▼ Building and asset renewal ratio (ie, building and infrastructure asset renewals as a percentage of building and infrastructure depreciation, amortisation and impairment)
- ▼ Infrastructure backlog ratio (ie, estimated cost to bring assets to satisfactory condition as a percentage of total (written down value) of infrastructure, buildings, other structures, depreciable land and improvement assets)
- ▼ Asset maintenance ratio (ie, actual asset maintenance as a percentage of required asset maintenance).
- ▼ Debt service ratio (principal and interest debt service costs divided by operating revenue excluding 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).

Lithgow City Council has a sound balance sheet and its current operational financial position is improving.

As at 30 June 2018, Council had total general fund assets of \$407 million which included cash assets of \$23.4 million. Total general fund liabilities were \$24.0 million including external borrowings of \$5.0 million. The comparative data for Council's consolidated position (water

and sewer fund included) was total assets of \$558 million including cash assets of \$34 million with total liabilities of \$39.4 million including external borrowings of \$19.9 million.

Council prepared a budget based on the delivery of the activities and targets outlined in its 2018/19 budget, and these activities were projected for ten years based on a range of assumptions. This forms LTFP Scenario 1 (the base case).

The financial impacts based on the adjustments and improvements to these budgets are presented in Scenarios 2 and 3 as outlined in more detail under each Scenario. The improved budget position also forms the basis of the four year delivery program.

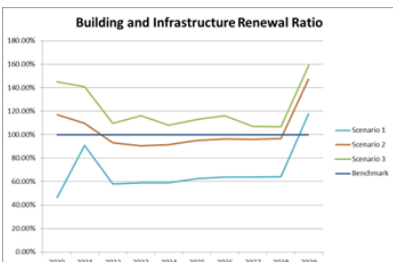
Performance Measurement

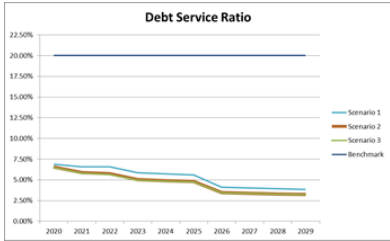
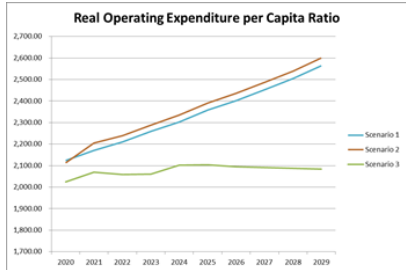
Council uses a range of measures to monitor performance. This includes the ratios reported in the Financial Statements notes and the additional Fit for the Future ratios used to measure financial sustainability. Performance measures allow Council to monitor the state of Council finances and its ability to maintain the community's assets and service levels into the future.

Regular monitoring of progress against LTFP targets and other ratios allows Council to review and refine its plans and keep the community informed on its progress.

Comparison of LTFP scenarios against key performance measures

We have used the Fit for the Future measures in determining performance measures for the LTFP. The following graphs compare the measures for the three scenarios, against each other and against the relevant benchmark. These graphs show the three year average ratios as per the Fit for the Future ratios.

| | |
|--|---|
|  |  |
| <p>Operating performance ratio excluding capital items (ie, net operating result excluding capital grants and contributions as percentage of operating revenue excluding capital grants and contributions).</p> <p>The operating performance ratio measures Council's achievement of containing operating expenditure within operating revenue.</p> <p>The recent trend has been towards an improving operating performance ratio although Council has not achieved a balanced operating performance ratio in recent years (with the exception of 2016/17 due to the Financial Assistance Grant prepayment). In 2017/18, the ratio was -1.99%</p> <p>The LTFP SRV scenario ensures that the Council has a positive operating performance ratio for each of the 10 years of the LTFP. The operating performance ratio is expected to improve from 2.73% (3 year average) in 2019/20 to 6.98% (3 year average) in 2028/29. Surplus funds will be placed in an internally restricted reserve for future asset renewal.</p> | <p>Building and asset renewal ratio (ie, building and infrastructure asset renewals as a percentage of building and infrastructure depreciation, amortisation and impairment)</p> <p>The building and asset renewal ratio assesses the rate at which infrastructure assets are being renewed relative to the rate at which they are depreciating.</p> <p>For the past 3 years, the Council's building and asset renewal ratio has been below the OLG benchmark of 100%. In 2017/18, the ratio was 87% and in the prior year it was 99%.</p> <p>The LTFP SRV scenario will enable the Council to meet the 100% benchmark for the building and asset renewal ratio in each year of the LTFP. The ratio varies for each year of the LTFP depending on the required level of asset renewal for the year.</p> |
|  |  |
| <p>Infrastructure backlog ratio (ie, estimated cost to bring assets to satisfactory</p> | <p>Asset maintenance ratio (ie, actual asset maintenance as a</p> |

| | |
|--|---|
| <p>condition as a percentage of total (written down value) of infrastructure, buildings, other structures, depreciable land and improvement assets)</p> <p>This ratio shows the proportion of the infrastructure backlog against the total value of Council's infrastructure.</p> <p>The Council has not been able to achieve the OLG benchmark of 2% in recent years. In 2017/18, the infrastructure backlog ratio was 6.04%.</p> <p>The LTFP SRV scenario ensures an improving trend for the infrastructure backlog ratio. The Council will meet the benchmark in year 5 of the LTFP (2023/24) and the ratio will be maintained on and then below the benchmark for the remaining years of the LTFP.</p> | <p>percentage of required asset maintenance).</p> <p>The asset maintenance ratio compares actual vs. required annual asset maintenance. A ratio above 100% (the OLG benchmark) indicates Council is investing enough funds to stop the infrastructure backlog growing.</p> <p>The Council has not been able to achieve the benchmark of 100% in recent years. The trend has been for a ratio in the range of 75% to 82% In 2017/18, the infrastructure backlog ratio was 75%.</p> <p>The LTFP SRV scenario enables the Council to improve funding for asset maintenance. The scenario indicates an improving asset maintenance ratio, rising from 80% in 2019/20 to reach the benchmark in 2027/28. The asset maintenance ratio will then be maintained at least at 100%.</p> |
|  |  |
| <p>Debt service ratio (principal and interest debt service costs divided by operating revenue excluding capital grants and contributions).</p> <p>The debt service ratio is not reported in the Council's financial statements.</p> <p>With borrowings being repaid over the 10 year term of the LTFP, the SRV scenario shows a steadily falling debt service ratio. The ratio will reduce from 6.47% in 2019/20 to 3.20% in 2028/29. The LTFP takes a conservative approach to prospective new asset works, with minimal borrowings for new works.</p> | <p>The Real Operating Expenditure per Capita Ratio was chosen as a "Fit for the Future" efficiency measure (similar to an efficiency dividend). It is a function of the number of residents, which allows some growth in expenditure in line with an increasing population and the growing service needs within the community. The measure ensures that Councils more consistently focus on how they may reduce their expenditure by achieving efficiencies in their operations.</p> |

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|------------------------|
| Own Source Revenue Ratio | 75.29% | 72.10% | 77.37% | 78.25% | 78.53% | 78.69% | 78.84% | 79.00% | 79.15% | 79.30% | From LTFP 3 Year Trend |
| Unrestricted Current Ratio | 0.92 | 0.73 | 0.76 | 0.82 | 0.97 | 1.27 | 1.51 | 1.86 | 2.18 | 2.33 | Benchmark >1.50 |
| Rates & Annual Charges Ratio | 5.53% | 5.52% | 5.52% | 5.52% | 5.52% | 5.52% | 5.52% | 5.52% | 5.52% | 5.52% | Benchmark <10% |

- **Own source revenue ratio** (ie, total operating revenue excluding capital items as a percentage of total operating revenue including capital items).

This ratio measures fiscal flexibility, the degree of reliance on external funding sources such as operating grants and contributions.

The Council has maintained an own source revenue ratio above the OLG benchmark of 60% in recent years. In 2017/18, the ratio was 73.97%.

The LTFP SRV scenario plans for the own source revenue ratio to be maintained in the range of 75% to 80% for the 10 year term of the LTFP.

- **Unrestricted current ratio** (the unrestricted current assets divided by unrestricted current liabilities).

The unrestricted current ratio assesses the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

The Council has consistently maintained an unrestricted current ratio above the OLG benchmark of 1.5x. In 2017/18 the unrestricted current ratio was 1.18x.

The LTFP SRV scenario indicates a rising unrestricted current ratio as surplus funds are allocated to reserves for future asset renewal. The unrestricted current ratio may be above

the benchmark from the 2024/25 year. Council will need to monitor the ratio to ensure that it has adequate working capital in the later years of the LTFP.

- **Rates and annual charges ratio** (rates and annual charges divided by operating revenue).

The rates and annual charges ratio assesses the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

The Council has consistently achieved a ratio in the range of 5% to 6 % in recent years, well below the OLG benchmark of 10% for rural Councils. In 2017/18, the ratio was 5.92%.

The LTFP scenario plans for a rates and annual charges ratio of approximately 5.5% for the full 10 year term of the LTFP.

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. In particular, councils need to communicate the full cumulative increase of the proposed special variation in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. 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. The IPART 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.¹

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.

¹ <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 it has 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 Chair.

Box 4.2 Where a council has an existing s508A special variation and is applying for an additional s508(2) special variation

The council's application should demonstrate that it has explained to its community:

- ▼ There is a special variation already in place for the current year and the size of that special variation.
- ▼ The size and impact of the additional special variation proposed and its purpose.
- ▼ The cumulative annual increase in rates from the existing and proposed special variation together.

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 Strategy

The Lithgow City Council Community Engagement Strategy "Special Rate Variation Proposal 2019/20 – Community Engagement Strategy" was endorsed by Council at its meeting held on 24 September 2018, however Council commenced engaging with the community in April 2018 as part of the exhibition of the draft 2018/19 Operational Plan. The SRV proposal has been included in the Council's IP&R documents since the 2017-2027 LTFP was placed on public exhibition in May 2017.

As part of its consultation program Council has incorporated the consultation elements identified in the IPART Guidelines for appropriate community engagement platforms within Council's resourcing capacity. The aims of the Community Engagement Strategy are to:

- Seek to gain an understanding of the communities satisfaction with Council Assets and what the community believes are the asset funding priorities for the future;
- Seek the community's views on Councils current and future service level priorities and levels;
- Seek the community's support or otherwise for the proposed Special Rate Variation:
 1. Support for reduced service levels/No increase to rates above rate peg.
 2. Support for improved service levels/ increased rates.

Since April 2018 Council has engaged with the local community on a number of levels including:

- Reports to Council –
 - 15 May 2017 – Draft Integrated Planning and Reporting Framework (Minute No. 17-151)
 - 26 June 2017 – Integrated Planning and Reporting Framework (Minute No. 17-194)
 - 23 April 2018 – Combined Delivery Program 2017-21 and Draft Operational Plan 2018/19. (Minute No. 18-96)
 - 25 June 2018 – Combined Delivery Program 2017-21 & Operational Plan 2018-19 (Minute No. 18-165)
 - 27 August 2018 – Asset Management Study Results (Minute No. 18-227)
 - 24 September 2018 – Special Rate Variation Community Engagement Strategy (Minute No. 18-262)
 - 24 September 2018 – Extra Ordinary Meeting of Council – Tuesday 29 January 2019 (Minute No. 18-254)
 - 26 November 2018 – Special Rate Variation Notice of Intention to IPART (Minute No. 18-352)
 - 29 January 2019 – Special Rate Variation Application to IPART

Agendas for Council meetings are posted on Council's website www.council.lithgow.com on the Thursday prior to the meeting. They are also promoted on Council's facebook page when they are posted on the website for interested members of the community. Members of the community may register to speak to an item on the agenda by 12 noon on the day of the Council meeting. There were no requests to speak to any of the reports listed above during this period.

- Promotion of the draft 2018/19 Operational Plan (during April/May on Council's Have Your Say website – www.haveyoursay.lithgow.com .
 - Video by the then Mayor, Cllr Stephen Lesslie introducing the Draft 2018/19 Operational Plan and providing an overview of the proposal to apply for a special rate variation (this received 117 views). www.youtube.com/watch?v=VNzZzCTLjKk
 - Video by the Chief Finance and Information Officer providing an overview of Council's financial position including actions taken to achieve long term financial sustainability and the proposal to apply for a special rate variation (this received 30 views) <https://www.youtube.com/watch?v=nMIh5f0LXsc>
 - Fact Sheets on the Special Rate Variation.

- Drop in Session in Cook Street, Plaza on Thursday 3 May for residents to ask questions of Senior Staff and Councillors on the Draft Operational Plan and the proposed Special Rate Variation.
- Media releases distributed through local and regional media, posted on Council's website and social media pages.
 - Proposed Special Rate Variation – Telephone Survey Results 21 Dec 2018
 - Special Rate Variation – The Process 17 Dec 2018
 - Council's proposed works program for 2019/20 revealed 13 Dec 2018
 - What would the proposed Special Rate Variation be used for? 12 Dec 2018
 - Have Your Say – Special Rate Variation Telephone Survey 10 Dec 2018
 - The Proposed Special Rate Variation – Has Council considered the community's capacity to pay? 7 Dec 2018
 - What Do You Get For Your Rates Dollar? 27 Sep 2018
 - Investing in our future 28 Jun 2018
 - If you look after the pennies, the dollars will look after themselves 1 May 2018
 - Have your say on the future of the Lithgow LGA 24 Apr 2018
- Documentation on exhibition
 - Draft 2017-2027 Long Term Financial Plan – May 2017
 - Draft Combined 2017-2021 Delivery Program and 2018/19 Operational Plan – April/May 2018
 - Integrated Planning and Reporting Framework 27 November 2018 – 11 January 2019 Included the Supplementary Combined 2017-2021 Delivery Program and 2018/19 Operational Plan, Supplementary 2017-2021 Workforce Plan, 2019-2029 Long Term Financial Plan and 2019-2029 Strategic Asset Management Plan
- Mailout to all ratepayers – A letter from the Mayor was distributed via the mailing house used to distribute Council's Rate Notices to ratepayers. 9,867 letters were distributed and 63 were returned to sender. Council has 11,342 ratepayers (see break-up in table below). Of the 1,475 ratepayers who did not receive a copy of the letter from the Mayor, a percentage receive their rate notices electronically and a number have multiple properties, in order to reduce costs multiple property owners received only 1 letter (not one for each property).

| Number of assessments as at 30 June 2018 | | | |
|---|----------|----------|--------|
| Residential | Farmland | Business | Mining |
| 9,560 | 1,279 | 490 | 13 |

- Inclusion of media releases and call to action to visit the Have Your Say Website in Council's eNewsletters:
 - Council Connections weekly eNewsletter – September - January (239 subscribers)
 - Have Your Say monthly eNewsletter – September - January (368 subscribers)
 - Lithgow Business & Tourism Matters monthly eNewsletter in November (1500 subscribers)
- Promotion of the proposal for a Special Rate Variation on the Have Your Say website – www.haveyoursay.lithgow.com
 - Documents Library

-
- Fact Sheets
 - Proposed Transport, Stormwater Drainage & Buildings Program for 2019/20 (Draft for consultation)
 - Budgeting for our future
 - Lithgow at a glance
 - Special Rate Variation Fact Sheet
 - How will this affect my rates?
 - IPART – 2019/20 Rate peg determination
 - Surveys
 - Rates Calculator
 - Two telephone surveys undertaken by Micromex Consulting
 - July 2018, Asset Management Study
 - November 2018, Special Rate Variation Survey
 - Both surveys were placed online on the Have Your Say Website following completion of the telephone surveys to ensure all ratepayers had an opportunity to participate in the survey.
 - Community Reference Panel for Service Priorities undertaken by Martin Bass of LGNSW with 15 members from a broad cross-section of the local government area.
 - Monitoring of social media and responding to community questions/comments.
 - Council staff in the Administration Centre (Customer Service) and Lithgow, Wallerawang and Portland Libraries were provided with training to assist residents with questions regarding the proposal for an SRV and accessing the Rates Calculator.

As part of the information process above, detailed information was provided to the community on the proposed program of works for 2019/20 and the impact on rating categories. Information was also provided on how Council considered the communities capacity to pay and what avenues were available to ratepayers experiencing hardship.

Available for downloading on www.haveyoursay.lithgow.com



| Asset Type | Current Maintenance & Renewal Budget (\$'000 p.a.) | Proposed increase in Investment (\$'000 p.a.) | Proposed Total Investment (\$'000 p.a.) | Proposed % increase in investment |
|---------------------|--|---|---|-----------------------------------|
| Transport | 4,188 | 725 | 4,913 | 17% |
| Stormwater Drainage | 107 | 100 | 207 | 93% |
| Buildings | 831 | 250 | 1,051 | 26% |

The remainder of the increased funding (approx. \$100,000 p.a.) will be spent on business improvement initiatives which will either generate additional revenue or reduce long-term costs for council.

| Impact on average rate | Average Rate 2018/19 \$ | Average Rate 2019/20 | Variance \$ per annum | Variance \$ per week |
|--------------------------|-------------------------|----------------------|-----------------------|----------------------|
| Residential Rates | | | | |
| Scenario 1 | 763.00 | 747.00 | -16.00 | |
| Scenario 2 | 763.00 | 815.00 | 52.00 | 1.00 |
| Business Rates | | | | |
| Scenario 1 | 3,950.00 | 3,868.00 | -82.00 | |
| Scenario 2 | 3,950.00 | 4,225.00 | 275.00 | 5.29 |
| Farmland Rates | | | | |
| Scenario 1 | 1,439.00 | 1,410.00 | -29.00 | |
| Scenario 2 | 1,439.00 | 1,539.00 | 100.00 | 1.92 |
| Mining Rates | | | | |
| Scenario 1 | 160,461.00 | 157,139.00 | -3,322.00 | |
| Scenario 2 | 160,461.00 | 171,581.00 | 11,120 | 213.85 |

The community was also able to access an online Rates Calculator on the Have Your Say website and/or contact the Council Administration Centre for assistance. They were also encouraged to bring their rates notices into Lithgow, Wallerawang or Portland Libraries where staff could assist them with accessing the Have Your Say website and use of the online rates calculator.

WHERE TO FIND YOUR PROPERTY'S VALUATION

To use the calculator you will need to know the valuation of your property that is set by the Valuer General. This value is based on the land value only and does not include any improvements such as buildings.

The valuation of your property can be found in the financial details section of your rate notice. It is the first item in the VAL/GTY column as highlighted in yellow on the sample rates notice image provided.

PLEASE NOTE:

This rates calculator is only for the base property rates and does not include other charges such as waste, sewerage or water charges.



Rates Calculator

Rate Category

☐ Residential

☐ Business

☒ Farmland

Land Valuation

350000

Are you a pensioner?

☐ Yes

☒ No

Where do you live

☐ Lithgow

☐ Lidsdale

☐ Portland

☐ Wallswang

☒ General

Farmland

2018/2019 rates

1401.14

Scenario 1 - No Special rate variation 2019/2020

1372.13

Scenario 1 difference per week

-0.56

Scenario 2 - Special rate variation 2019/2020

1498.23

Scenario 2 difference per week

1.87

WHAT IF I FEEL THAT I CAN'T AFFORD TO PAY?

Council acknowledges that any rate increase may adversely impact some community members. Council has a [Hardship Policy](#) and alternative payment options to assist ratepayers should they have difficulty keeping up with their rate payments. Please contact Council Administration Centre for further information regarding this on 6354 9999.

The engagement process provided the community with a number of avenues to provide feedback including:

- www.haveyoursay.com
- Telephone surveys
- Online surveys
- In writing to Council
- In writing to IPART
- Direct contact face to face
- Phone calls
- Drop in session in Cook Street Plaza.
- Service Priorities Community Reference Panel

Community submissions were received and considered in two rounds:

1. As part of the community submissions received for the Draft 2018/19 Operational Plan (reported to Council on 25 June 2018).
2. Reported to Council at the Extra Ordinary Meeting held on 29 January to consider the submission of the application for the Special Rate Variation to IPART.

During this consultation process Council prepared consultation materials and supplementary IP&R documents which clearly outlined:

- The proposed special variation rate increase 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 weekly terms)
- The rate levels that would apply under a base (No SRV scenario).

Integrated Planning & Reporting Framework

On 23 April 2018, Council resolved to adopt the Combined 2017-21 Delivery Program and 2018/19 Operational Plan. The Message from the Mayor (p4) and page 15, Proposed Special Rate Variation outlined Council's intention to apply for a Special Rate Variation in 2019/20. During the exhibition period, Council received three submissions against the proposed Special Rate Variation, all of which were reported to the Council meeting held on 25 June 2018 for information. Each of these submissions received a response as part of Council's community engagement process.

On 26 November 2018, Council resolved to notify IPART of its intent to apply for a Special Rate Variation. As part of this process the following documents which form the Integrated Planning and Reporting Framework were adopted:

- **Supplementary Combined 2017-21 Delivery Program and 2018/19 Operational Plan** –Pages 4 and 15 were amended.

Message from the Mayor – Our Place, Our Future (p4)

I am pleased to present to you the Supplementary Combined Delivery Program 2017/18 – 2020/21 and Operational Plan 2018/19.

This supplementary version of the Combined Delivery Program 2017/18 - 2020/21 and Operational Plan 2018/19 reiterates Council's intention to engage with the community on its proposal to apply for a permanent Special Rate Variation of 9% to commence in 2019/20. This will extend the current SRV of 4.77% with an increase of 4.23% plus the annual rate peg

The expiration of the current 4.77% special rate variation on 30 June 2019 will reduce Council's general rate revenue by \$624,000 and thereby reduce Council's ability to continue to deliver the current levels of service experienced by the community. The proposal to retain the current SRV of 4.77% plus apply for an additional 4.23% plus annual rate peg will ensure a projected income for 2019/20 of \$1,178million. This will allow Council to increase funding for the following assets:

- *Transport (sealed roads, unsealed roads, footpaths, cycleways, bridges and road drainage)*
- *Stormwater Drainage*
- *Buildings*

Increasing the level of funding for these assets will allow council to renew those which are currently in a poor condition. It will also ensure that the number of assets in poor condition does not continue to grow. It is essential that our community assets are safe, in working order and meet community expectations. The expenditure will ensure that the Fit for the Future asset benchmarks are met over time.

The remainder of the increased funding (approx. \$100,000 p.a.) will be spent on business improvement initiatives which will either generate additional revenue or reduce long-term costs.

In making this decision Council is ensuring that we consider the community's capacity to pay and that we continue to apply for grants and seek funding from corporate and alternative sources of sponsorship to maximise the value of our annual budgetary commitments.

Cr Ray Thompson
Mayor

Proposed Special Rate Variation (p 15)

The 2019-2029 Long Term Financial Plan (LTFP) includes a Sustainable Assets Scenario, which locks in further organisational improvements and identifies the need to apply to replace the existing infrastructure special rate variation (SRV) of 4.77% when it expires. In the 2019-29 LTFP scenario, a replacement SRV is planned to commence in 2019/20. It is proposed to apply for a replacement SRV to commence in 2019/20, following the expiry of the current SRV.

If Council is successful in an application for a new permanent SRV of 9% to commence in 2019/20, together with the proposed improvement measures included in the LTFP, Council will be assured of its financial sustainability and will be able to meet all of the Fit for the Future (FFTF) ratios over the 10 year term of the LTFP. The proposed SRV represents the continuation of the existing 4.77% SRV together with a further 4.23%. The ongoing identification of organisational

efficiencies, cost savings and maximisation of revenue will assist Council to overcome its financial sustainability challenges with the lowest possible impact on ratepayers.

The preferred scenario is that Council seeks an SRV of 9% when the existing SRV for infrastructure improvements expires at the end of 2018/19. The new SRV in 2019/20 will mean an additional increase of 4.23% for ratepayers at that time. This, when combined with other improvement measures, enables Council to operate with a small surplus which provides additional cash resources to help fund extra infrastructure renewals. These financial results make the Council 'fit' in accordance with the Office of Local Government guidelines. In the LTFP Scenario, Council is able to meet the operating performance ratio from 2019/20 onwards. Council will closely monitor its operating result and budget to ensure an operating surplus is retained. This means that Council will continue to operate largely within its existing funding levels and implement a number of improvement initiatives, including ongoing service reviews, to ensure ratepayers receive an agreed affordable level of service and that the services are provided in an efficient and cost effective manner.

While the LTFP Scenario does mean that Council will seek another SRV of 9% from 2019/20, the actual impact on ratepayers is only an additional 4.23%. If there was no approved SRV in 2019/20, ratepayers could expect a fall in their rates of 4.77%. Without a new SRV, the rate peg (which is 2.7% for 2019/20) would be applied to the lower rate base resulting in a net decrease in rates of approximately \$624,000. In the SRV Scenario, 2019/20 ratepayers will receive a further 4.23% increase in that year. Council will continue its efforts to find further improvements to reduce the reliance on the additional SRV application.

Another benefit of the LTFP Scenario is that the cash reserve balance for general fund trends upwards from 2024. This places Council in a sound cash position with ongoing capacity to fund asset renewals.

- **Supplementary Workforce Plan 2017-2021**– updated to include information on the Special Rate Variation (pp7-8)

The community will be engaged on two Scenarios for ensuring a sustainable future. In communicating these options, the Council will outline the following:

The magnitude of the financial challenge and infrastructure funding shortfall facing the local government area (LGA) over the next 10 years and its impact on service levels.

The need to consider community "capacity" to pay additional rates in determining the options to be presented.

The need for residents to be able to have their say on whether or not they are prepared to pay additional rates to maintain and/or improve service levels.

The two scenarios, which have been developed for community consideration, are:

- Scenario 1- Current SRV expires + rate peg

On 1 July 2019, the current 4.77% SRV expires. A 2.7% rate peg would be added to the lower rate base. The projected loss of rates revenue due to the expiry of the current SRV is estimated at \$624,000 for the 2019/20 year.

This is estimated to reduce Council's workforce by two entry level positions.

- Scenario 2 - Maintain the current SRV + rate peg + one-off (permanent) 4.23% SRV

Council proposes to apply to retain the current SRV of 4.77%. Council also plans to request an additional one-off SRV of 4.23%. The total SRV application will be for a 9% increase in rates revenue (i.e. the current 4.77% SRV plus a new 4.23% SRV). The 2.7% rate peg will also be added. The impact on ratepayers will be a new 4.23% SRV plus the rate peg. The projected

total SRV income (from maintaining the current SRV plus adding the new SRV) is estimated at \$1.178 million for the 2019/20 year.

It is estimated that this could translate into an extra 5.5 entry level positions. This is based on the assumption that day labour would be used to undertake work on asset projects.

Importantly, the allocation of funding would be subject to legislatively required annual Service and Asset Management Plan reviews and to addressing priority risk mitigation actions. Expenditure would target critical service/ asset priorities that the community places a high value on and / or those that have a high risk profile.

- **Strategic Asset Management Plan 2019-29**– updated in line with the Scenario 3 – Sustainable Assets Projections identified in the Long Term Financial Plan 2019-29 (Pages 15-17)
- *Infrastructure Backlog*

Council's infrastructure backlog represents the cost to bring assets in a worn and poor condition up to an acceptable standard.

Council has recently reviewed the asset registers and the backlog figures, which was previously reported in Special Schedule 7, 2017 / 2018 as \$28Million. Council's asset data such as unit rates, condition ratings and useful lives were revised and a new methodology for determining the infrastructure backlog has been applied.

The infrastructure backlog ratio compares the backlog figure to the written down value of our assets (WDV). Figure 1 show how the ratio decreases from 2019 / 2020, moving towards meeting the 2% OLG target by the later years of the plan. The ratio determines if the asset backlog is manageable. Figure 1 shows the Infrastructure backlog over a ten-year (10) period (Long Term Financial Plan Scenario 3 – Sustainable Assets). The projections each year are based on the previous year's backlog, adding depreciation and deducting renewal expenditure. The renewal expenditure is adopted in the Long Term Financial Plan (LTFP) and will be revised each year to ensure that Council reallocates renewal to asset groups with a higher backlog figure.

| Infrastructure Backlog Ratio (%) | Projected 18/19 | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Budget 27/28 | Budget 28/29 |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|
| Buildings and Infrastructure | 6.3% | 5.3% | 4.2% | 3.8% | 3.2% | 2.9% | 2.4% | 1.9% | 1.6% | 1.3% | 0.8% |

Figure 1 Infrastructure Backlog Ratios (identified in the LTFP Scenario 3 – Sustainable Assets)

- **Asset Renewal Expenditure**

Renewal is the activities undertaken to refurbish or replace assets with assets of equivalent capacity or performance capacity. Renewal works are included in Council's Capital Works Program.

Figure 2 displays the asset renewal ratio forecasts identified in Council's ten (10) year Long Term Financial Plan (Scenario 3 – Sustainable Assets). The asset renewal ratio compares renewal expenditure to the depreciation of assets. The ratio indicates if the asset renewal expenditure is sufficient to maintain the assets in the long-term. The 2017 / 2018 actual ratio was 87%, below the sustainable target of 100%. The 2018 LTFP (Scenario 3 – Sustainable Assets) demonstrates that Council plans to exceed the OLG benchmark of 100% by 2018 / 2019, and continue to maintain this level for future years.

| Asset Renewal Ratio (%) | Projected 18/19 | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Budget 27/28 % | Budget 28/29 % |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| Buildings and Infrastructure | 133.0% | 145.2% | 141.0% | 109.7% | 116.2% | 108.2% | 112.8% | 116.3% | 107.0% | 106.7 % | 159.2 % |

Figure 2 Asset Renewal Ratio (identified in the Long-Term Financial Plan Scenario 3 – Sustainable Assets)

- **Asset Maintenance Expenditure**

Asset maintenance is the activity required or undertaken by Council to preserve the original condition of the assets. The required maintenance, which is reported in Special Schedule 7, is the amount that Council should be spending on its assets and is based on the percentage of the replacement cost. Actual maintenance includes the budgeted amount that Council will spend on preventative, corrective and reactive maintenance annually.

Figure 3 displays the asset maintenance ratio forecasts identified in Council's ten (10) year Long-Term Financial Plan (Scenario 3 – Sustainable Assets). The asset maintenance ratio compares the figures and demonstrates how Council meets the OLG benchmark of 100% in the final years of the Long-Term Financial Plan. Maintenance expenditure will have to be revised each year to ensure that Council remains on track to meet the 100% benchmark within the term of the LTFP.

| Asset Maintenance Ratio (%) | Projected 18/19 | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Budget 27/28 | Budget 28/29 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|
| Buildings and Infrastructure | 77% | 80% | 82% | 85% | 87% | 90% | 93% | 96% | 99% | 103% | 106% |

Figure 3 Asset Maintenance Ratio (identified in the Long-Term Financial Plan Scenario 3 – Sustainable Assets)

- **New / Upgrade Expenditure**

Capital new works expenditure creates assets which will deliver a service to the community that didn't exist beforehand, whilst capital upgrade enhances an existing asset to provide a higher level of service to the community. New and upgrade works are included in Council's Capital Works Program and are funded through a combination of rate funding, Section 94a contributions, successful grant applications and loan funding. Figure 4 shows the ten-year (10) capital new and upgrade expenditure forecasts identified in Council's Long-Term Financial Plan (Scenario 3 – Sustainable Assets).

| New & Upgrade Asset Expenditure (\$) | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Projected 27/28 | Projected 28/29 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Building and Infrastructure | | | | | | | | | | |
| – Asset Renewals | 11,816 | 12,102 | 10,844 | 12,102 | 11,121 | 11,632 | 12,226 | 11,467 | 11,653 | 12,782 |
| - New Assets | 1,241 | 209 | 214 | 219 | 223 | 228 | 233 | 239 | 244 | 249 |
| Water Fund | | | | | | | | | | |
| – Asset Renewals | 4,632 | 1,550 | 1,901 | 1,573 | 1,595 | 1,687 | 1,710 | 1,733 | 1,757 | 7,781 |
| - New Assets | 184 | 285 | 136 | 136 | 4457 | 1988 | 139 | 140 | 141 | 142 |
| Sewer Fund | | | | | | | | | | |
| – Asset Renewals | 310 | 2,910 | 1,040 | 1,843 | 1,967 | 1,992 | 2,117 | 2,043 | 2,069 | 2,196 |
| - New Assets | 2,534 | 6,435 | 1,436 | 36 | 37 | 38 | 39 | 40 | 41 | 42 |

Figure 4 – Asset Renewals and New Assets

- **Long Term Financial Plan 2019-29**– the following summary outlines the additional revenue generated from the proposed SRV.

| Impact on average rate | Average Rate 2018/19 \$ | Average Rate 2019/20 \$ | Variance \$ per annum | Variance \$ per week |
|--------------------------|-------------------------|-------------------------|-----------------------|----------------------|
| Residential Rates | | | | |

| | | | | |
|-----------------------|------------|------------|-----------|--------|
| Scenario 1 | 763.00 | 747.00 | -16.00 | |
| Scenario 2 | 763.00 | 815.00 | 52.00 | 1.00 |
| Business Rates | | | | |
| Scenario 1 | 3,950.00 | 3,868.00 | -82.00 | |
| Scenario 2 | 3,950.00 | 4,225.00 | 275.00 | 5.29 |
| Farmland Rates | | | | |
| Scenario 1 | 1,439.00 | 1,410.00 | -29.00 | |
| Scenario 2 | 1,439.00 | 1,539.00 | 100.00 | 1.92 |
| Mining Rates | | | | |
| Scenario 1 | 160,461.00 | 157,139.00 | -3,322.00 | |
| Scenario 2 | 160,461.00 | 171,581.00 | 11,120.00 | 213.85 |

| Income Statement - General Fund | Budget 2018/19 | Projected 2019/20 | Projected 2020/21 | Projected 2021/22 | Projected 2022/23 | Projected 2023/24 | Projected 2024/25 | Projected 2025/26 | Projected 2026/27 | Projected 2027/28 | Projected 2028/29 |
|-----------------------------------|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| For the year | | | | | | | | | | | |
| Income from Continuing Operations | | | | | | | | | | | |
| Revenue: | | | | | | | | | | | |
| Ordinary Rates | 11,375 | 11,567 | 11,769 | 12,005 | 12,275 | 12,582 | 12,896 | 13,219 | 13,549 | 13,888 | 14,235 |
| Ordinary Rates - SRV | 551 | 559 | 559 | 1,068 | 1,081 | 1,096 | 1,111 | 1,126 | 1,142 | 1,158 | 1,174 |
| Special Rates | 246 | 246 | 250 | 255 | 261 | 268 | 274 | 281 | 288 | 295 | 303 |
| Annual Charges | 4,038 | 4,286 | 4,372 | 4,459 | 4,559 | 4,673 | 4,790 | 4,910 | 5,033 | 5,158 | 5,287 |
| Rates and Annual Charges | 16,679 | 17,728 | 18,176 | 18,624 | 19,084 | 19,555 | 20,037 | 20,532 | 21,039 | 21,559 | 22,092 |

Scenario 3 - Financial Statements – 2019-29 LTFF (p56-64)

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.

Since April 2018 Council has engaged with the local community on a number of levels including:

Community submissions were received and considered in two rounds:

- Three of the community submissions received for the Draft 2018/19 Operational Plan (reported to Council on 25 June 2018) were in response to the proposed Special Rate Variation. The submissions (which were included as attachments to the report) were summarised with an officers' response and recorded in the council report. A written response was provided to the community members following the Council meeting.

| Summary of written submissions – Special Rate Variation | |
|---|---|
| Summary of Community Submission | Officers Response |
| <i>"The rate rise of 9% is exorbitant and something the people of Lithgow cannot afford".</i> | The submission is noted. The 9% Special Rate Variation (SRV) application will include permanent retention of the existing 4.77% SRV. The proposed actual increase on 2018/19 rates will be 4.23%. |
| <i>"I am a single person with a mortgage and I don't want another rate increase when we just had one last year...My neighbour is an elderly person who owns her home and lives on a single pension. I see her struggle and she doesn't have any spare money to fix things around her home or pay someone to mow her lawns. This rate increase will have a significant impact on pensioners".</i> | The submission is noted. Under the Local Government Act 1993, eligible pensioners are provided concessions on their ordinary rates and domestic waste management services charge. The cost of providing these concessions is shared between the State Government (55%) and local councils (45%). |
| <i>"Cost cutting is not considered. Reliance on rate increases is always the answer and too easily relied upon... You've missed making it possible for all members of the community to voice their concerns regarding a SRV. You've also missed considering the situations of the majority of your community members and their ability to absorb this increase, and so many other increases in costs that barely enable a very basic living standard. You've missed reference to the cost to our community of the termination of our previous general manager, before consulting anyone as to the pitfalls. You've missed transparency as to those members of the community that are being surveyed regarding Draft Plans."</i> | The submission is noted. The 2017-2027 Long Term Financial Plan identified a range of measures to generate long-term operational efficiencies estimated at \$2.5M by the end of 2019/20. The efficiencies currently being implemented include a service review program and a review of a range of governance practices and procedures. As an outcome, the Council will deliver services based on thorough analysis of the long term demand, need and type of facilities that meet the community's requirements and which are affordable within the means of Council. The Council will use an appropriate variety of engagement methods to ensure community awareness and input into the Special Rate Variation process. |

- Reported to Council at the Extra Ordinary Meeting held on 29 January to consider the submission of the application for the Special Rate Variation to IPART.
 - Submissions on the Special Rate Variation closed on 11 January 2019. 28 submissions were received. A summarised matrix of the submissions was included in the report to Council on 29 January for Council consideration. The matrix was broken up into four parts:
 - Summary of submissions received against the Proposed SRV
 - Summary of submissions received – General Matters Raised
 - Summary of submissions received 'in support of' the Proposed SRV
 - Summary of submissions received which offer an alternative to the Proposed Special Rate Variation.

As per the table above (Summary of written submissions – Special Rate Variation reported to 25 June meeting) an Officers Response was recorded against all community comments. Due to the size of the matrix, it is included as an attachment to this application for information.

In addition to the summary matrix, a redacted copy of all submissions received was provided for the information of Council.

All correspondents were responded to during the process, acknowledging receipt of submissions and informing them of the date of the Council meeting so they could attend if they wished. In addition following the Council meeting, they received a letter detailing of the outcome of their submissions and the informing them of next steps in the process.

It is interesting to note that of the majority of the submissions received in response to the proposed SRV, most provided a list of requests for services/issues/complaints that they felt were needed to be addressed in the Lithgow LGA.

- Two **telephone surveys** undertaken by Micromex Consulting
2018 Asset Management Study Survey (July 2018)

In 2018 Council conducted further community consultation in order to identify and inform their long-term management/resourcing strategies for the assets of the LGA.

The Study was undertaken to identify and inform council's long-term management/resourcing strategies for the assets of the LGA as identified in Council's "Special Rate Variation Proposal 2019/20 – Community Engagement Strategy"

"Seek to gain an understanding of the community's satisfaction with Council assets and what the community believes are the asset funding priorities for the future."

Specifically the research quantitatively explored:

- Relative priority and satisfaction of key community assets.
- The level of investment residents believe should be dedicated to different community assets, both before and after receiving an information pack.
- Understanding support for Council's funding position in regards to key asset areas.
- Identifying any community endorsed revenue options for Council to explore in order to address funding requirements.

This Asset Management Study consisted of a three stage methodology:

- **Stage 1:** Initial recruitment of 631 Lithgow LGA residents selected by means of a computer based random selection process using Sample Pages, collection of several 'pre' measures.
- **Stage 2:** Mail-out by Council of an information pack explaining the various asset management options.
- **Stage 3:** Recontact telephone interviews with 401 of the initial 631, collection of numerous 'post' measures.

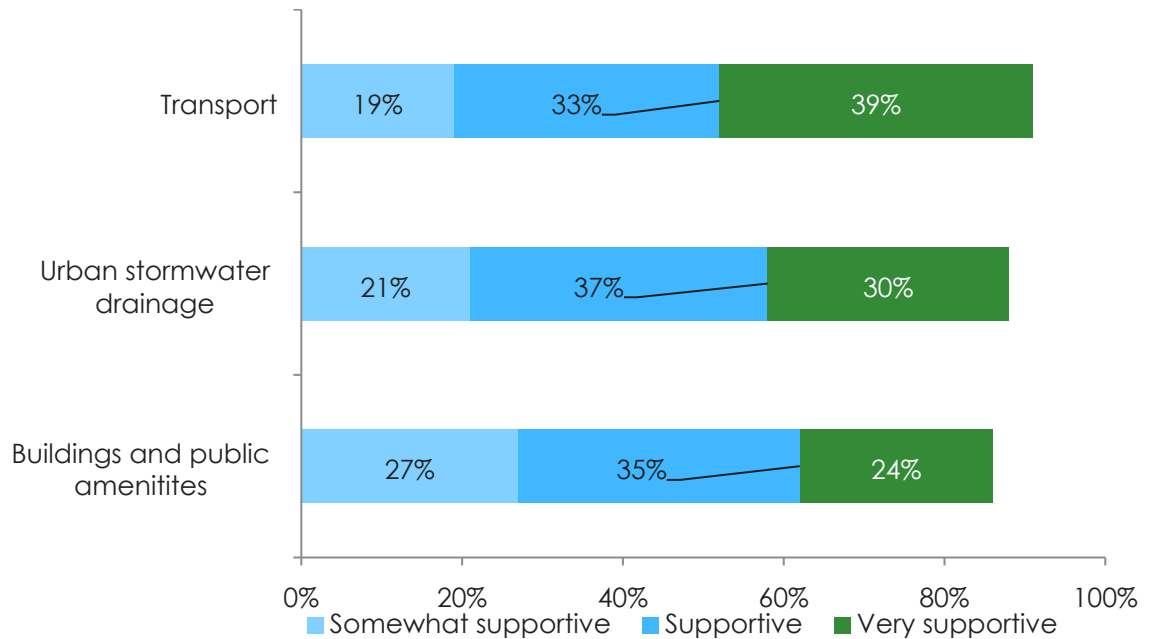
Dashboard of Key Findings



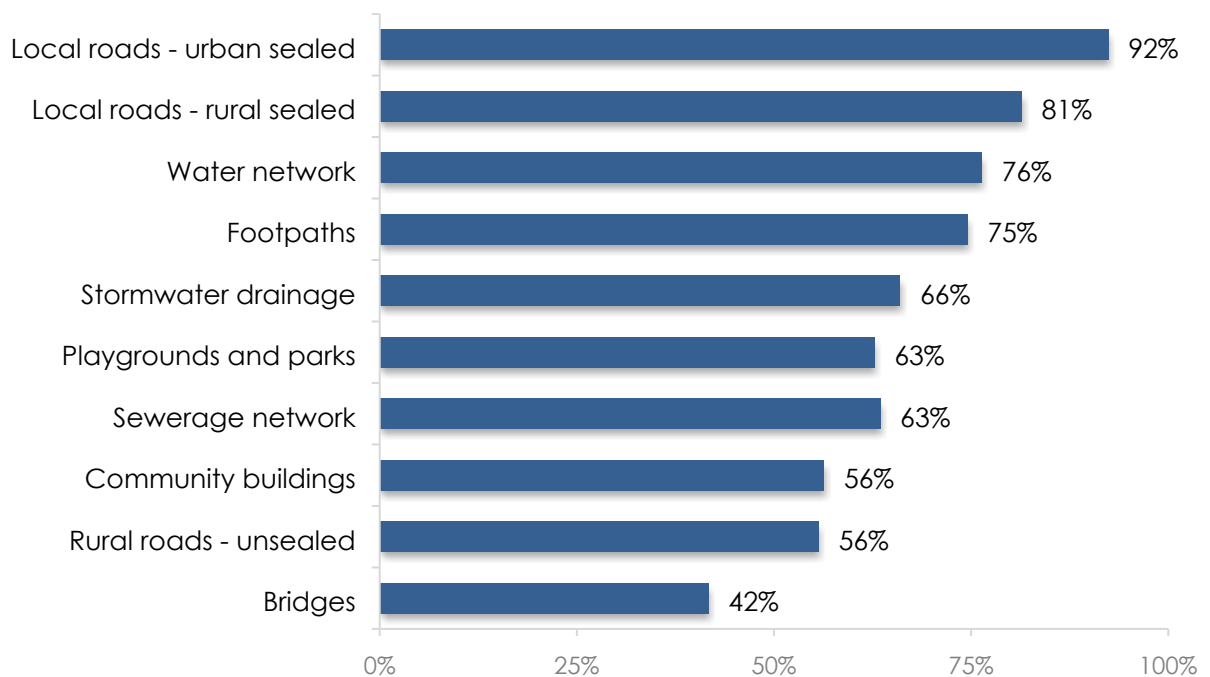
- Overall satisfaction with the performance of Council (pre-info pack): 66% at least somewhat satisfied
- Overall satisfaction with the performance of Council (post-info pack): 76% at least somewhat satisfied
- Satisfaction with the quality of community assets: 80% at least somewhat satisfied
- Satisfaction with the community consultation: 91% at least somewhat satisfied

The level of investment that residents believe Council should be dedicating to 6 of the 10 community assets significantly differed after reading the information pack. Residents were significantly more likely to state that there should be more investment in the recontact survey for

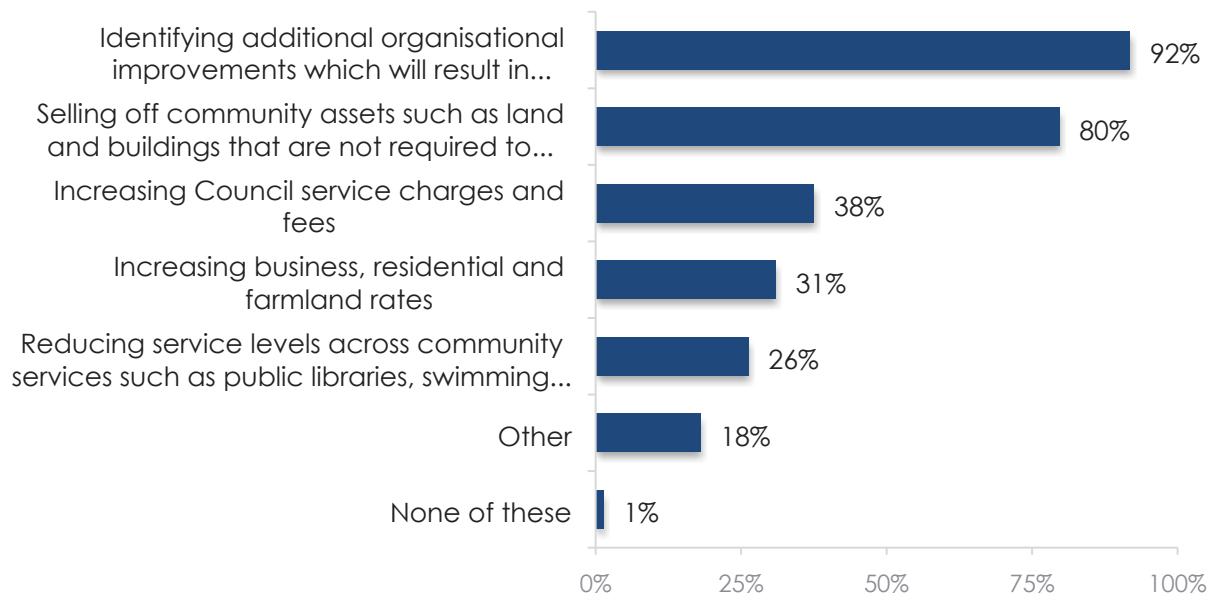
'stormwater drainage', 'rural roads – unsealed' and 'bridges', but significantly less likely to state there should be more investment in the 'water network', 'footpaths' and 'playgrounds and parks'.



Overall residents are supportive of investment increasing for all 3 types of services/facilities, though support was highest for 'transport', with 91% of residents being at least 'somewhat supportive'



'Local roads- urban sealed' were the council asset the largest proportion of residents consider to be a priority (92%), followed by 'local roads- rural sealed' (81%). 'Bridges' was the council asset the lowest proportion of residents stated was a priority for them (42%).



Community expectation is that Council will continue to deliver a broad range of services including:

- parks, sports grounds, playgrounds and community halls;
- libraries, arts and culture;
- community development services for children, youth, older people, people living with a disability and Aboriginal and Torres Strait Islander People;
- public and environmental health;
- environmental sustainability projects and invasive species management;
- transport services including roads, footpaths, car parks, road safety and traffic facilities;
- business development, events and tourism;
- development services, such as development applications and certification;
- land use and natural environmental planning;
- stormwater and flood management;
- emergency management;
- community and council strategic planning;
- executive, communication and support service

The cost of providing all of these services raises challenges around service delivery and the potential opportunity cost of the delivery of those services.

The surveys above show that the community expectation is for Council to be “responsive to community needs” however, 92% of residents would support Council identifying additional organisational improvements that result in efficiencies, and 80% would support selling off community assets. Balancing community expectation and demand whilst delivering organisational improvement and efficiencies is a challenge for Council.

52% of residents already accept that they need to pay directly (via rates: 31%) or indirectly (via service charges and fees: 38%) to allow council to meet these funding requirements in order to improve the quality of community assets.

November 2018, Special Rate Variation Telephone Survey – Micromex Consulting

401 respondents were selected by means of a computer based random selection process using the electronic White Pages and SamplePages.

The Special Rate Variation Surveys (telephone and online) were identified in Council’s “Special Rate Variation Proposal 2019/20 – Community Engagement Strategy”

“Seek the community’s support or otherwise for the proposed Special Rate Variation:

1. *Support for reduced service levels/No increase to rates above rate peg.*

2. Support for improve service levels/increased rates.

- Prior to contact 62% of residents were already aware of the proposed SRV – 57% become aware via the Council mailout (letter from the Mayor).
- 58% of residents were at least somewhat supportive of Option 2 (Maintain the Current SRV + Rate Peg + One-off (permanent) 4.23% SRV) compared to 52% who were at least somewhat supportive of Option 1 (Current SRV Expires + Rate Peg)
- Residents were split with regards to their preferred option, with 50% selecting Option 1 (Current SRV Expires + Rate Peg) and 50% selecting Option 2 (Maintain the Current SRV + Rate Peg + One-off (permanent) 4.23% SRV) as their first preference
- Primary reasons residents selected Option 1 included: 'Council are ineffective/I do not trust they will spend any extra money effectively' (19%), 'I cannot afford a rate increase/I am a pensioner' (12%) and Option 1 'is the most affordable option' (8%)
- Primary reasons for selecting Option 2 included: 'I am supportive of services/facilities/infrastructure being kept up to standard/improved' (29%), 'we cannot afford to have services/facilities/infrastructure further deteriorate' (7%) and 'it is evident the City needs additional funding' (5%)

Following completion of the telephone survey on 14 December, an online version of the survey was made available on www.haveyoursay.lithgow.com. The survey provided an opportunity for ratepayers who do not live in the Lithgow local government area and members of the community who weren't contact by telephone to complete the survey. 160 rate payers completed the survey. 85% (136) of respondents chose Option 1 – Current SRV expires + rate peg as their 1st preference with 15% (24) of respondents choosing options 2 – Maintain the current SRV + Rate peg + one off (permanent) 4.23% SRV). When asked:

- • How supportive are you of Council proceeding with Option 1? Of the 160 respondents 97 were somewhat – very supportive and 63 were not very – not at all supportive.
- • How supportive are you of Council proceeding with Option 2? Of the 160 respondents 24 were somewhat – very supportive and 147 were very – not very – not at all supportive.

The survey results should be read in context with "Reasons for choosing this option as your highest preference" document attached. The comments/reasons in this document are verbatim from the complete excel report provided by Micromex Consulting. However, the information has been collated into several key areas:

- In support of the proposed Special Rate Variation
- General comments
- Council's financial and management capabilities
- Employment for the Local Government Area
- Employee costs
- Local economy
- CBD Revitalisation
- Pension/low income earners
- Cost of rates
- Consultation
- Transport facilities.

Community Reference Panel for Service Priorities undertaken by Martin Bass of LGNSW

During September/October Council invited interested members of the community to participate in a Community Reference Panel to assist in the identification of Service Priorities. 15 community members from a broad cross-section of the local government area committed to attending three meetings over a 6 week period at the Lithgow Council Chambers (11 & 25 September and 9 October).

In addition to a general media release calling for interested members of the community to participate, invitations were sent out to the mailing list compiled from the 631 residents who had participated in the initial recruitment survey for the Asset Management Study telephone survey undertaken by Micromex Consulting in July.

The Service Priorities Community Reference Panel was identified in Council's "Special Rate Variation Proposal 2019/20 – Community Engagement Strategy" to:

"Seek the community's views on Councils current and future service level priorities and levels"

Although the Community Reference Panel (CRP) was convened to discuss Service Priorities, it became apparent that members of the panel also, wished to discuss the proposed special rate variation. The CRP provided Council with an opportunity to educate the community on the issues faced by Council and the need for a SRV. At the final meeting, time was allocated to allow the members of the CRP an opportunity, to:

- provide feedback on the application of a Special Rate Variation – Yes or No.
- Discuss – reasons for / against a Special Rate Variation.

A poll around the room provided a general consensus with the need for an SRV as follows:

- As a ratepayer with multiple properties I say no. BUT, if I can see where my money is going, I don't care as long as it's going to the benefit of the town.
- Yes, it's not a lot of money. If spent properly and we get 'bang for our buck' that's fine. I feel there should be a Works Committee for rural roads made up of rural ratepayers of the community from all rural areas that come together to discuss rural road issues.
- Yes, as a ratepayer I'd be happy if I could see where it's going.
- Yes, rates are cheaper here than in other Council areas in real terms and we will see good development happen.
- Yes for worthwhile projects that benefit the community.
- Yes, happy to retain current SRV (4.77%) UNTIL Council can show their improvements – best practice. There will be rural push back if people can't see it in their areas.
- Yes, in principle, although I'd love to see the projects for this with or without the SRV.
- Wavering – I think there will be resistance. Some people in the community will have difficulty understanding the concept of what they will be getting. Understanding how is that increase going to serve the bigger picture.
- Yes, one of the issues in that we need to understand what work is done. We need to be clear about what's happening.
- Yes, its been pointed out, its less than a cup of coffee.
- Yes, its need to be able to get things done.

Meeting notes from the three CRP meetings are included in the attachments.

- Monitoring of social media and responding to community questions/comments. – All of Council's media releases are placed on the Lithgow Council Facebook page. The information was shared to other local social media and personal facebook pages ensuring the message received a wider

coverage of the community. Where possible, Council monitored public comment and, on @LithgowCityCouncil comments/questions were responded to.

- The proposed Special Rate Variation and the opportunity for community feedback was reported in the local newspapers (Village Voice and Lithgow Mercury).



- Council staff in the Administration Centre (Customer Service) and Lithgow, Wallerawang and Portland Libraries were provided with training to assist residents with questions regarding the proposal for an SRV and accessing the Rates Calculator.

During the exhibition period (27 November – 11 January) Staff in Council's Customer Service Centre reported that they experienced a steady volume of calls/visits from members of the community who required clarification on the proposal or to identify the impact of the proposed SRV on their rates and were able to assist.

- In December, once the letter from the Mayor to ratepayers was received by the community, it is estimated that approximately 20 calls/counter enquiries were experienced per day for the first week, then it slowed to around 10 per day for the second week and then 5 or less per day in the lead-up to Christmas. Enquiries mainly consisted of:
 - people wanting to know what the SRV was about;
 - why council was looking for more money when they already pay so much in rates; and
 - why roads aren't being fixed

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 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 (eg, receipt of new valuations) in the rating structure.

The consultation process, calculator and material produced by Council projected for the Community the impact of the different rating revenue under the SRV scenario.

The Council does not propose any change to the current rating structure for the SRV scenario. The current rating structure would also continue to apply if the special variation is not approved. It is proposed that the SRV increase will not be applied differentially among categories of ratepayers.

The 2017/18 rating structure is outlined in the following table which is an extract from our 2017/18 Delivery Program and Operational Plan:

| Residential | | | |
|---|------------------|---------------------------------|-------------------|
| | Base Amount (\$) | Ad Valorem Amount (c in the \$) | |
| Lithgow (Including Strathlone, Littleton and Marrangaroo) | 292 | 0.593342 | 4,421,401 |
| Wallerawang | 255 | 0.460839 | 488,787 |
| Portland | 249 | 0.441131 | 467,879 |
| Lidsdale | 292 | 0.440290 | 92,984 |
| General | 205 | 0.329205 | 1,748,521 |
| Farmland | | | |
| Intense Use | 380 | 0.291753 | 191,924 |
| Farmland | 380 | 0.291753 | 1,644,282 |
| Business | | | |
| Lithgow | 411 | 2.369504 | 1,530,133 |
| Wallerawang | 411 | 1.480240 | 110,886 |
| Portland | 411 | 1.140570 | 41,991 |
| Lidsdale | 278 | 1.869992 | 7,926 |
| General | 278 | 0.401001 | 170,174 |
| Mining | | | |
| Coal Mines | 10,048 | 9.953514 | 2,085,933 |
| Total Estimated Yield | | | 13,002,882 |

5.1.1 Minimum Rates

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

For minimum rate increases, a council must seek approval via an instrument when it:

- ▼ proposes to increase its minimum rates above the statutory limit for the first time with or without increasing its general income above the rate peg limit;
- ▼ it is already imposing an ordinary minimum rate above the statutory limit and it seeks to increase that rate by more than the rate peg or the percentage allowed by a special variation; or
- ▼ is seeking to increase the minimum amount of its **special rates** above the statutory limit.

Under these scenarios, where the council is also proposing a special variation in the same rating year, it may submit a combined special variation and minimum rate application.

Complete this section if the council is seeking approval to increase the minimum amount of an ordinary rate or special rate via an instrument as outlined above.

Does the council have an ordinary rate subject to a minimum amount? Yes ☐ No ☒

Does the council propose to increase the minimum amount of its ordinary rates above the statutory limit for the first time? Yes ☐ No ☒

Which rates will the increases apply to? Residential ☐ Business ☐ Farmland ☐

Does the council propose to increase the minimum amount of its ordinary rate/s by:

- The rate peg percentage ☐
- The special variation percentage ☐
- A different amount ☐ indicate this amount (%) _____ (\$)

What will the minimum amount of the ordinary rate/s be after the proposed increase? \$ _____

If the increase applies to a special rate, complete this section

What will the minimum amount of the special rate be after the proposed increase? \$ _____

IPART will assess applications for minimum rates above the statutory limit against the following set of criteria (in addition to any other matters which IPART considers relevant):

- ▼ the rationale for increasing minimum rates above the statutory amount,
- ▼ the impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category, and
- ▼ the consultation the council has undertaken to obtain the community's views on the proposal.

See the separate **Minimum Rate Application Form Part B** for more detail on how IPART will assess applications against each of these criteria. It is the council's responsibility to provide enough evidence in its application to justify the increase. Where applicable, councils should make reference to the relevant parts of its Integrated Planning and Reporting documentation to demonstrate how the criteria have been met.

The council must explain how the proposed special variation will apply to the minimum amount 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 (refer to Part A of the application as necessary).

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.

N/A

It is not necessary for a council to apply to IPART for an increase in minimum rates when the council:

- ▼ is seeking to increase its ordinary minimum rates to any level at or below the statutory limit (even if the increase is by more than the rate peg); or
- ▼ has previously had an increase to its ordinary minimum rate above the statutory limit approved by IPART, and is seeking further increases by the rate peg or the percentage applied for in a special variation application (see section 548(4) and (5) of the Act).

Complete this section for information only if the proposed increase to the minimum amount is not above the statutory limit or if above the statutory limit, the council has previously been granted approval for an increase above the statutory limit (see section 548(4) and (5) of the Act).

Does the council have ordinary rates subject to a minimum amount? Yes ☐ No ☐

Which ordinary rate will the proposed increase apply to? Residential ☐ Business ☐ Farmland ☐

Does the council propose to increase the minimum amount of its ordinary rate/s by:

- The rate peg percentage ☐
- The special variation percentage ☐
- A different amount ☐ Indicate this amount (%) _____ (\$)

What will the minimum amount of the ordinary rate/s be after the proposed increase? \$ _____

Where the minimum rate increase is proposed without a corresponding variation to ordinary rates, a separate Minimum Rate application is required. See the separate Minimum Rate Application Forms Part A and Part B for 2019-20.

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.

Community's Capacity to Pay

Lithgow City Council recognises that rate payers in the Lithgow local government area may, at times, experience difficulty paying rates and annual charges, irrespective of their income. Council has a financial hardship policy in place to provide assistance and support to community members who are experiencing financial stress and are unable pay their rates and charges on time.

In considering the community's capacity to pay a Special Rate Variation, Council has thoroughly researched its community's level of socio-economic disadvantage, its rating structure compared with neighbouring Councils, ratepayer income levels and changes in land values.

Lithgow Council's SEIFA indexes indicate that the Lithgow LGA is more socio-economically disadvantaged than neighbouring council's, as indicated in the table below:

| Local Government Area | Index of Relative Socio-economic Advantage & Disadvantage | | Index of Relative Socio-economic Disadvantage | |
|-----------------------|---|--------|---|--------|
| | Score | Decile | Score | Decile |
| Lithgow | 908 | 2 | 923 | 2 |
| Blue Mountains | 1042 | 9 | 1045 | 9 |
| Bathurst | 973 | 7 | 986 | 6 |

| | | | | |
|-------------|-----|---|-----|---|
| Oberon | 951 | 5 | 969 | 5 |
| Mid-Western | 942 | 4 | 960 | 5 |

The only other central west local government area with a similar SEIFA Index of Relative Socio-economic Advantage & Disadvantage score is Cowra (score 910, decile 2).

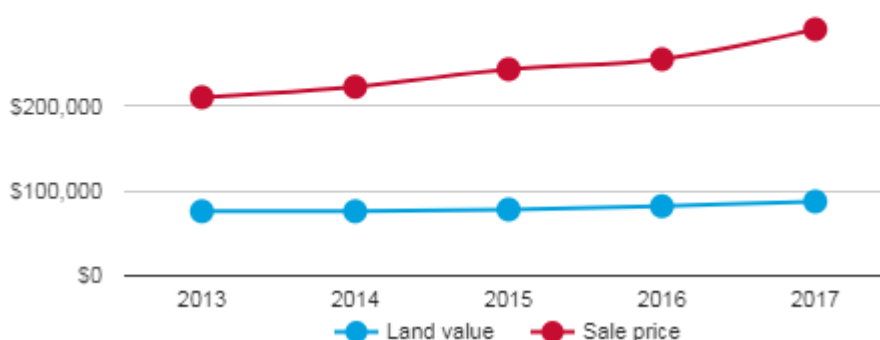
From the OLG Time Series Data 2016-17, Lithgow council's average residential rates are comparatively higher than other Central West Group 4 councils (Lithgow's average residential rates include sewer access charges). Average rates for business and farmland are at the lower end compared with neighbouring councils. Average mining rates are not comparable due to the low number of rating assessments. Lithgow Council's 2016-17 average rates (as per the Time Series calculation method of total rating revenue divided by the number of assessments) are summarised in the table below:

| Rating Category | Average Rate |
|-----------------|--------------|
| Residential | \$1,406.92 |
| Business | \$3,520.66 |
| Farmland | \$1,350.67 |
| Mining | \$156,307.69 |

Also from the OLG Time Series Data 2016-17, the 2015 taxable income in the Lithgow Council LGA (\$56,849) is the highest of the Central West Group 4 Councils.

Median residential land values have been relatively stable (below \$100,000) for the past 5 years, as shown in the chart below (reference 2017 Valuer-General land value summaries).

Median land values and sale prices



The ratio of outstanding rates and annual charges in the 2016-17 financial years was 5.8%. This amount is below the average of 6.07% in the ten areas including Lithgow and its surrounding regions. This demonstrates that Lithgow LGA residents are not experiencing a greater inability to meet the costs of rates and annual charges, than residents in surrounding areas.

Council has taken into consideration, information on the income of community members in order to assess the capacity of rate payers to pay the increase in rates. Analysis of individual income levels in Lithgow City in 2016

compared to Regional NSW shows that there was a similar proportion of people earning a high income (those earning \$1,750 per week or more) and a higher proportion of people earning a low income (those earning less than \$500 per week).

| Council The councils listed are those that continued operations and reported for the financial year 1 July 2016 to 30 June 2017 | Rates and Annual Charges Outstanding (%) | Debt Service Cover Ratio | Debt Service Ratio | Cash Expense Cover Ratio |
|--|--|--------------------------|--------------------|--------------------------|
| | | | | |
| Bathurst Regional | 5.7 | 4.1 | 5.5 | 10.0 |
| Blayney | 2.2 | 21.1 | 1.7 | 15.7 |
| Blue Mountains | 3.4 | 2.6 | 8.3 | 4.4 |
| Hawkesbury | 5.5 | 11.5 | 1.7 | 8.9 |
| Lithgow | 5.8 | 5.4 | 5.8 | 9.1 |
| Mid-Western Regional | 3.4 | 8.7 | 4.1 | 16.7 |
| Oberon | 7.7 | 12.1 | 3.3 | 11.8 |
| Orange | 5.7 | 6.9 | 4.5 | 13.6 |
| Parkes | 6.4 | 4.8 | 7.2 | 13.8 |
| Richmond Valley | 14.9 | 5.0 | 6.7 | 6.9 |

Lithgow LGA has a greater number of social housing properties on average, to assist people who are experiencing financial hardship. Lithgow City Council recognises that rate payers may at times experience difficulty paying rates and annual charges, irrespective of their income and the following measures have been put in place to assist ratepayers in assessing the impact of the SRV on them and to provide assistance to those in need (see pages 29-31 of the LTFP):

1. A web-based rates calculator tool was developed and made available on www.haveyoursay.lithgow.com for ratepayers to compare their rates under the “no SRV” and “SRV” scenarios, based on their land valuation.
2. Council’s Financial Hardship Policy (Policy 8.6 – available for viewing on www.council.lithgow.com and www.haveyoursay.lithgow.com) provides assistance and support to community members who are experiencing financial stress and are unable to cover the costs of rates and annual charges. This policy is also promoted through Council’s weekly eNewsletter – Council Connections.
3. Council is committed to working with ratepayers experiencing financial hardship to agree on affordable payment plans.

In summary, Council has recognised its relative socio-economic disadvantage by limiting the proposal to retain the current 4.77% SRV plus an additional Special Rate Variation of 4.23% increase (plus rate peg) thereby seeking only a one-off, single year increase of 9% which does not expire. In 2019/20, the total SRV increase will be 11.7% (inclusive of the 2.7% rate peg).

Community’s Willingness to pay

Council developed a web-based rates calculator tool (available on www.haveyoursay.lithgow.com) that ratepayers can use to compare their rates under the “no SRV” and “SRV” scenarios, based on their land valuation. In addition a table detailing the impact of options on average rates and revenue was promoted in fact sheets, detailed in a media release (The Proposed Special Rate Variation – Has Council considered the community’s capacity to pay? 7 Dec 2018) and in the Letter from the Mayor sent to all Council ratepayers.

| Impact on average rate | Average Rate | Average Rate | Variance \$ per annum | Variance \$ per week |
|--------------------------|--------------|--------------|-----------------------|----------------------|
| Residential Rates | | | | |
| Scenario 1 | 763.00 | 747.00 | -16.00 | |
| Scenario 2 | 763.00 | 815.00 | 52.00 | 1.00 |
| Business Rates | | | | |
| Scenario 1 | 3,950.00 | 3,868.00 | -82.00 | |
| Scenario 2 | 3,950.00 | 4,225.00 | 275.00 | 5.29 |
| Farmland Rates | | | | |
| Scenario 1 | 1,439.00 | 1,410.00 | -29.00 | |
| Scenario 2 | 1,439.00 | 1,539.00 | 100.00 | 1.92 |
| Mining Rates | | | | |
| Scenario 1 | 160,461.00 | 157,139.00 | -3,322.00 | |
| Scenario 2 | 160,461.00 | 171,581.00 | 11,120.00 | 213.85 |

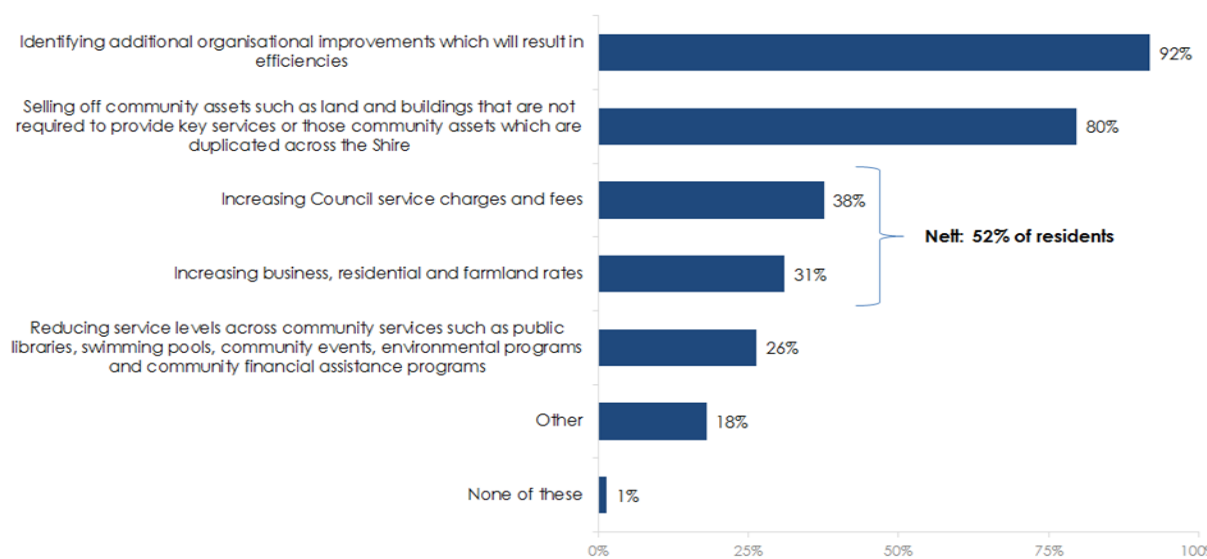
Micromex Research were engaged to undertake a large scale community research project in July 2018 which included a community survey and report on findings. The survey was conducted using a three stage methodology, commencing with a computer based random selection process and telephone recruitment of 631 residents residing in the Lithgow local government area. This initial recruitment survey included a number of pre-measures to ensure that participants were representative of the community and to gain their initial understanding of the proposed Special Rate Variation. A document, Investing in our Future (Asset Study Survey Information Pack) was mailed out to all survey participants. The information pack explained the various asset management options being considered by Council. In the third stage, Micromex Research conducted telephone interviews with 401 of the initial 631 community residents contacted.

In summary, findings from the survey demonstrate that there are high levels of support for Council to increase investment in order to achieve better outcomes in regards to the quality of assets. Results from the survey demonstrate that half of Lithgow LGA residents accept that they need to pay more, either indirectly via rates or directly via service fees and charges, in order for Council to have the required funding to increase investment in community assets.

The diagram below demonstrates responses to the question regarding Council services funding options.

Preferred Funding Options

Q5. (Recontact) Considering the challenges Council faces with ageing infrastructure, which of the following revenue options would you support Council exploring in order to address funding requirements?



The responses show that 52% of residents already accept that they need to pay directly (via rates – 31%) or indirectly (via service charges and fees – 38%) to allow council to meet these funding requirements in order to improve the quality of community assets.

During September/October Council invited interested members of the community to participate in a **Community Reference Panel** to assist in the identification of Service Priorities. 15 community members from a broad cross-section of the local government area committed to attending three meetings over a 6 week period at the Lithgow Council Chambers (11 & 25 September and 9 October).

Although the Community Reference Panel (CRP) was convened to discuss Service Priorities, it became apparent that members of the panel also, wished to discuss the proposed special rate variation. The CRP provided Council with an opportunity to educate the community on the issues faced by Council and the need for a SRV. At the final meeting, time was allocated to allow the members of the CRP an opportunity, to:

- provide feedback on the application of a Special Rate Variation – Yes or No.
- Discuss – reasons for / against a Special Rate Variation.

A poll around the room provided a general consensus with the need for an SRV as follows:

- As a ratepayer with multiple properties I say no. BUT, if I can see where my money is going, I don't care as long as it's going to the benefit of the town.
- Yes, its not a lot of money. If spent properly and we get 'bang for our buck' that's fine. I feel there should be a Works Committee for rural roads made up of rural ratepayers of the community from all rural areas that come together to discuss rural road issues.
- Yes, as a ratepayer I'd be happy if I could see where it's going.
- Yes, rates are cheaper here than in other Council areas in real terms and we will see good development happen.
- Yes for worthwhile projects that benefit the community.
- Yes, happy to retain current SRV (4.77%) UNTIL Council can show their improvements – best practice. There will be rural push back if people can't see it in their areas.
- Yes, in principle, although I'd love to see the projects for this with or without the SRV.
- Wavering – I think there will be resistance. Some people in the community will have difficulty understanding the concept of what they will be getting. Understanding how is that increase going to serve the bigger picture.

- Yes, one of the issues is that we need to understand what work is done. We need to be clear about what's happening.
- Yes, it's been pointed out; it's less than a cup of coffee.
- Yes, it's needed to be able to get things done.

Meeting notes from the three CRP meetings are included in the attachments.

November 2018, Special Rate Variation Telephone Survey – Micromex Consulting

401 respondents were selected by means of a computer based random selection process using the electronic White Pages and SamplePages.

- Prior to contact 62% of residents were already aware of the proposed SRV – 57% become aware via the Council mailout (letter from the Mayor).
- 58% of residents were at least somewhat supportive of Option 2 (Maintain the Current SRV + Rate Peg + One-off (permanent) 4.23% SRV) compared to 52% who were at least somewhat supportive of Option 1 (Current SRV Expires + Rate Peg)
- Residents were split with regards to their preferred option, with 50% selecting Option 1 (Current SRV Expires + Rate Peg) and 50% selecting Option 2 (Maintain the Current SRV + Rate Peg + One-off (permanent) 4.23% SRV) as their first preference
- Primary reasons residents selected Option 1 included: 'Council are ineffective/I do not trust they will spend any extra money effectively' (19%), 'I cannot afford a rate increase/I am a pensioner' (12%) and Option 1 'is the most affordable option' (8%)
- Primary reasons for selecting Option 2 included: 'I am supportive of services/facilities/infrastructure being kept up to standard/improved' (29%), 'we cannot afford to have services/facilities/ infrastructure further deteriorate' (7%) and 'it is evident the City needs additional funding' (5%)

Following completion of the telephone survey on 14 December, an **online version of the survey** was made available on www.haveyoursay.lithgow.com. The survey provided an opportunity for ratepayers who do not live in the Lithgow local government area and members of the community who weren't contact by telephone to complete the survey. 160 rate payers completed the survey (see attachment 7). 85% (136) of respondents chose Option 1 – Current SRV expires + rate peg as their 1st preference with 15% (24) of respondents choosing options 2 – Maintain the current SRV + Rate peg + one off (permanent) 4.23% SRV). When asked:

- How supportive are you of Council proceeding with Option 1? Of the 160 respondents 97 were somewhat – very supportive and 63 were not very – not at all supportive.
- How supportive are you of Council proceeding with Option 2? Of the 160 respondents 24 were somewhat – very supportive and 147 were very – not very – not at all supportive.

The survey results should be read in context with 8. Special Rate Variation - Reasons for Choosing option 1 or 2 as your highest preference report ((Q3b of online survey (see attachment 8)). The comments/reasons in this document are verbatim from the complete excel report provided by Micromex Consulting. However, the information has been collated into several key areas:

- In support of the proposed Special Rate Variation
- General comments
- Council's financial and management capabilities
- Employment for the Local Government Area
- Employee costs
- Local economy

- CBD Revitalisation
- Pension/low income earners
- Cost of rates
- Consultation
- Transport facilities.

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 <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| If Yes, is an interest charge applied to late rate payments? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| Does the council propose to introduce any measures to reduce the impact of the proposed special variation on specific groups in the community? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |

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).

Lithgow City Council recognises that at times ratepayers may experience difficulty in paying their rates and charges. The Council has a Hardship Policy in place to provide assistance to those ratepayers and is committed to working with such ratepayers to agree on affordable payment plans.

The objective of Council's Hardship Policy is *"To provide assistance to ratepayers suffering financial hardship, with outstanding debts due to council and to provide an administration process to determine applications promptly."*

A debtor who cannot pay a debt due to Council for the reason of financial hardship can apply for assistance at any time. Each individual case [is] considered on its merits. The criteria for assessment includes but, is not limited to:

- *The amount of any rate increase when compared to the average rate increase for the rate category*
- *Income from all sources*
- *Living expenses*
- *Reason for financial hardship*
- *Length of occupancy*

The assistance provided is determined under the legal requirements of the Local Government Act 1993 (LGA). The following sections of the LGA give Council the authority necessary to provide assistance:

Section 601 LGA 1993

Any ratepayer who incurs a rate increase in the first year following a revaluation of land values can apply to Council for rate relief if the increase in the amount of rates payable would cause them substantial hardship.

Council has discretion to waive, reduce or defer the payment of the whole or any part of the increase in the amount of the rate payable. Council can set the period of time for when applications can be made under this Section.

Applications under Section 601 LGA 1993 must be made during the first year a new land value is used for rating purposes. Where an application is made in the first year, an application can also be made in subsequent years of the valuation base date.

Section 582 LGA 1993

Council can provide assistance to pensioners under this Section. Council may defer payment of all or part of the rates and charges payable after rebates have been deducted.

Sections 564 and 567 LGA 1993

Council can enter into payment agreements with rate payers, who cannot meet their normal instalment payments as provided by the LGA 1993.

- Council will provide an application form for the purpose of applying for assistance. The Hardship Committee will review the application and recommend to the Chief Financial Information Officer (CFIO) any offer of assistance as provided by the Local Government Act 1993 having regard to the circumstances of the applicant
- The CFIO can approve or not approve the Committee's recommendation
- The ratepayer will be informed of Council's decision in writing and if not satisfied with the outcome can request the Council to reconsider its decision
- After the Council considers the application and makes a decision the ratepayer has no further right to appeal.

Delegated Officers of Council can enter into payment agreements with ratepayers (Sections 564 and 567 LGA 1993).

Accrued interest on rates and charges may be written off where payment of the accrued interest would cause the person hardship. The Hardship Committee may request the ratepayer to come to an interview if it is necessary to understand the issues causing hardship."

Council also provides concession on rates and charges for eligible pensioners. 20% of Lithgow City Council ratepayers receive a pensioner concession on their rates. Section 575 of the Local Government Act 1993 outlines the level of concession available to pensioners as follows:

"Rebates are available to eligible pensioners who are solely or jointly liable for the payment of rates and charges. The pensioner must occupy the dwelling as their sole or principal place of living. The rebates are as follows:

- 50% of the combined ordinary rates and domestic waste management charge up to a maximum rebate of \$250.00.
- 50% of water charges up to a maximum rebate of \$87.50.

- 50% of sewerage charges up to a maximum rebate of \$87.50

The pensioner rebate must be applied against the rate assessment or water billing account in the name of the ratepayer and not a Body Corporate or a Company, except where it is allowed by special agreement. The special agreement would cover circumstances such as where an applicant is the sole shareholder of the company that owns the property and the property is used as the applicant's principal place of residence. The application must be approved by the General Manager."

Office of Local Government Debt Management & Hardship Guidelines

Council has also reviewed the Office of Local Government Debt Management and Hardship Guidelines Section 23A of the Local Government Act 1993 (November 2018). The objective of the Guidelines is to "...assist councils to develop policies and procedures that provide for:

- *Efficient and effective collection of council rates, charges and outstanding debt*
- *Contemporary and flexible options to collect money from ratepayers*
- ***Fair and equitable treatment of ratepayers, including those facing hardship***
- ***How to identify and work with ratepayers in hardship when collecting money***
- *Reduced use of expensive court processes to recover debts*
- ***Improved financial sustainability of councils, including performance in managing outstanding rates and charges, and***
- *Compliance with legislative requirements, including the Local Government Act and privacy laws."*

Council currently provides the following payment options for ratepayers:

- Electronic billing and payments
- Periodic payments
- Direct debit

Council is currently liaising with Centrelink regarding enabling Centrepay so that pensioners and ratepayers on employment benefits can make regular payments directly from their Centrelink Benefit.

Council's Hardship Policy is not referenced in the council's IP&R documents, however, the policy is publicised on the Council's website.

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.²

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.³ However, it would be expected that the Long Term Financial Plan would be posted, in a prominent location, on the council's website.

On 6 December 2016, Council received a 'Notice of intention to issue a Performance Improvement Order to Lithgow City Council under Section 438A of the Local Government Act 1993' from the, then Minister for Local Government, the Hon. Paul Toole, MP.

In response, Council engaged the services of specialist consultants, Morrison Low to develop a Performance Improvement Plan that would position Council for a sustainable future by:

- Reviewing and developing Council's Long Term Financial Plan (LTFP) to incorporate a Fit for the Future improvement plan and strategies.
- Reviewing Council's Asset Management Plan and Special Schedule 7.
- Preparing a Financial Management Maturity Assessment to understand Council's Financial Management Maturity Status and developing an Improvement Plan with specific priority actions.

This work was completed as part of Council's Integrated Planning and Reporting Framework (IPR).

The work undertaken by Morrison Low to position Council for a sustainable future provides a range of long term benefits and value for Council and the community in the form of:

- A robust financial plan with improvement options for longer term sustainability.
- An opportunity for Council to provide improved services to the community.
- Good practice financial management governance, procedures and process.
- It satisfies the additional Integrated Planning and Reporting requirement for the Asset Management Plan and asset service levels.
- Building confidence in the community that Council is financially sustainable to deliver on the Community Strategic Plan outcomes, key programs and projects.

- Meeting all statutory obligations and being in a position to maintain stewardship of the community's resources.
- Ensuring transparent annual planning and quarterly reporting processes through the IPR Framework which shows the implementation of the Performance Improvement Plan.

Council considered a range of options and settled on three scenarios or options. The options considered in developing this LTFP were:

- Scenario 1 – Base case

This is the base case and represents the continuation of 'as is' without applying a range of improvement strategies and without the addition of extra asset renewal expenditure to ensure the FFTF asset ratios are achieved. This includes the loss of revenue when the existing SRV for an infrastructure levy ceases in 2019.

- Scenario 2 – Base case with improvements

This takes the base case and adjusts the financial projections based on a number of improvement opportunities that have been identified. With the improvements proposed, Council is able to meet the operating performance ratio for the consolidated entity under this scenario but does not have sufficient funds for asset renewal nor to clear the infrastructure backlog. This means that Council is not Fit for the Future in Scenario 2.

- Scenario 3 – Sustainable assets

This takes the revised financial projections in Scenario 2 but also provided for a new SRV of 9% in 2019/20. This represents the continuation of the existing 4.77% SRV (Infrastructure Levy) when it ceases on the assumption that a new permanent SRV of the same amount will be applied for and approved commencing in 2019/20. It also includes an additional 4.23% above the current rates charged to residents to provide extra financial capacity so that Council is able to meet the financial sustainability ratios. Scenario 3 also includes significant, additional, asset renewal expenditure over ten years to ensure that the asset benchmarks are met or trending toward meeting the ratios during the term of the LTFP for the general fund.

This scenario enables Council to become financially sustainable.

The 2017-2021 Long Term Financial Plan developed by Morrison Low was adopted for exhibition as part of Council's Integrated Planning and Reporting Framework at the Extra Ordinary Meeting held on 15 May 2017. On page 10 of the report to Council it was noted that:

"The Long Term Financial Plan indicates that in order for Council to remain sustainable, it will be necessary to seek a Special Rate Variation (SRV) following cessation of the current SRV in 2019."

ITEM 1 CORP – 15/05/17 – INTEGRATED PLANNING AND REPORTING
FRAMEWORK

PROCEDURAL MOTION

THAT Council move into the committee of the whole

MOVED: Councillor R Thompson

SECONDED: Councillor W McAndrew.

CARRIED

RECOMMENDATION

THAT

1. The Integrated Planning and Reporting Framework suite of documents be placed on public exhibition for a minimum of 28 days. This will include the following documents:
 - a. The Draft Community Strategic Plan 2030
 - b. The combined Draft Delivery Program 2017/18 – 2020/21 and Draft Operational Plan 2017/18 and the Draft Fees and Charges 2017/18
 - c. The Draft Strategic Asset Management Plan
 - d. The Draft Long Term Financial Plan
 - e. The Draft Workforce Plan
2. The research reports received from Micromex Research be endorsed and placed on Council's website as part of the community engagement process.
3. The closing date for submissions be Monday 12 June 2017.

MOVED: Councillor R Thompson

SECONDED: Councillor W McAndrew.

PROCEDURAL MOTION

THAT Council move back into open Council.

MOVED: Councillor R Thompson

SECONDED: Councillor W McAndrew.

CARRIED

Council received 7 submissions for consideration prior to the adoption of the Integrated Planning and Reporting Framework. All were in response to the Combined Delivery Program 2017-21 and 2017/18 Operational Plan. There were no submissions for/against the Special Rate Variation scenarios as outlined in the 2017-2027 Long Term Financial Plan.

On 23 April 2018, Council resolved to adopt the Draft Combined 2017-21 Delivery Program and 2018/19 Operational Plan for exhibition. The Message from the Mayor (p4) and page 15, Proposed Special Rate Variation outlined Council's intention to apply for a Special Rate Variation in 2019/20. The report to the Council meeting on 23 April included details of the proposed Special Rate Variation (pp 6-7) as follows

Proposed Special Rate Variation

On 26 June 2017, the Council adopted the Long Term Financial Plan (LTFP) 2017-2026 (Minute No. 17-194) which is available for viewing on Council's website. The LTFP included "Scenario 3 – Sustainable Assets" which proposed the continuation of the existing Special Rate Variation (SRV) "when it ceases on the assumption that a new permanent SRV of the same amount will be applied for and approved" (LTFP - p25).

The purpose of the proposed SRV is to improve financial sustainability, to fund infrastructure renewals and to fund asset maintenance. The proposed SRV will enable the Council to meet all Fit for the Future ratios during the term of the LTFP.

The following are key considerations in the Council's decision to prepare a Special Rate Variation application:

- The Council has implemented a range of improvement initiatives to more accurately reflect the council's true financial position and to also demonstrate council's commitment to generate ongoing operational efficiencies;*
- The Council is continuing to look for further improvements to reduce the reliance on extra rating revenue;*
- The Council is committed to an extensive process to engage with the community to explain the reasons for seeking approval for an SRV. The community will be consulted in setting affordable levels of service, related asset planning, the impact of the SRV on rates and the alternative option to an SRV (i.e. further service reductions).*

The proposed SRV represents the continuation of the existing 4.77% SRV together with a further 4.23% to ensure Council becomes financially sustainable by meeting all of the Fit for the Future

benchmarks by the end of the LTFP period. The impact of the proposed SRV on rates is summarised in the table below:

Table 1: Proposed SRV Impact on Rates

| ANNUAL RATE INCREASE (%) | 2019/20 | 2020/21 | 2020/22 |
|-----------------------------------|--------------|-------------|-------------|
| Rate Peg (estimate) | 2.5% | 2.5% | 2.5% |
| Additional Special Rate Variation | 6.5% | | |
| Total Annual Increase | 9.0% | 2.5% | 2.5% |
| * Expiring Special Rate Variation | -4.77% | | |
| Net Impact on Rates | 4.23% | 2.5% | 2.5% |

* If there was no additional Special Rate Variation in 2019/20, ratepayers would experience a 4.77% decrease in rates, then the rate peg would be applied.

As detailed in the adopted LTFP, without an SRV the Council “is not able to generate an operating surplus nor achieve the Operating Performance Ratio. The backlog ratio has not improved significantly and does not achieve the target.” (LTFP Scenario 2 – p23). Operating costs are rising faster than the Council’s ability to generate operating revenue. The only alternative to an SRV application is to make further cuts to services to deliver a balanced operating result (before capital), consistent with Fit for the Future requirements.

ITEM-14 P&S - 23/04/18 - COMBINED DELIVERY PROGRAM 2017-21 AND DRAFT OPERATIONAL PLAN 2018-19

18-96 RESOLVED

THAT:

- The combined Delivery Program 2017-2021 and Draft Operational Plan 2018/19 be placed on public exhibition for a minimum of 28 days. This will include the following documents:
 - The combined Delivery Program 2017– 2021 and Draft Operational Plan 2018/19.
 - Draft Fees and Charges 2018/19.
- The closing date for submissions is Monday 21 May 2018.
- Council confirm Long Term Financial Plan Scenario 3 as its preferred option for financial sustainability and notify the Independent Pricing and Regulatory Authority (IPART) of its intention to prepare an Application for a Special Variation based on the table below:

| SRV Information | Proposed Application |
|---------------------------------------|--|
| Type of Special Rate Variation | Application under Section 508(2) of the NSW Local Government Act – being an increase in a single year. |
| Percentage increase | 9% in 2019/20 (to replace the expiring 4.77% SRV in 2019/20). |
| Permanent or temporary increase | A permanent increase which is retained within the rate base. |
| Purpose of the Special Rate Variation | Primary purposes (based on IPART categories): <ul style="list-style-type: none"> Improvements in financial sustainability, and Reductions in backlogs for asset maintenance and renewal. |

- Council staff prepare an Application for a Special Rate Variation and submit the draft application for endorsement prior to the 2018/19 SRV deadline.

MOVED: Councillor W McAndrew

SECONDED: Councillor S Ring.

CARRIED UNANIMOUSLY

During the exhibition period, Council received three submissions against the proposed Special Rate Variation, all of which were reported to the Council meeting held on 25 June 2018 for information. Each of these submissions were responded to as part of Council’s community engagement process.

On 26 November 2018, Council resolved to notify IPART of its intent to apply for a Special Rate Variation.

MOTION

THAT

1. Council notify the NSW Independent Regulatory and Pricing Tribunal of its intention to lodge an application under Section 508(2) of the NSW Local Government Act for a permanent 9% increase in 2019/20 (to replace the expiring 4.77% Special Rate Variation in 2019/20) for the primary purposes (based on IPART categories) of:
 - a. Improvements in financial sustainability; and
 - b. Reduction in backlogs for asset maintenance and renewal.
2. The following documents be placed on public exhibition for a minimum of 28 days. This will include the following documents:
 - a. Supplementary combined Delivery Program 2017– 2021 and Operational Plan 2018/19.
 - b. 2019-2029 Long Term Financial Plan
 - c. Supplementary 2017-2021 Workforce Plan
 - d. 2018-2028 Strategic Asset Management Plan
3. The closing date for submissions is Friday 11 January 2019.

MOVED: Councillor C Coleman

SECONDED: Councillor D Goodsell

AMENDMENT

THAT

1. The following documents be placed on public exhibition for a minimum of 28 days. This will include the following documents:
 - a. Supplementary combined Delivery Program 2017– 2021 and Operational Plan 2018/19.
 - b. 2019-2029 Long Term Financial Plan
 - c. Supplementary 2017-2021 Workforce Plan
 - d. 2018-2028 Strategic Asset Management Plan
2. The closing date for submissions is Friday 11 January 2019.

MOVED: Councillor S Lesslie

SECONDED: Councillor

The Amendment was withdrawn by Councillor Lesslie.

18 – 352 RESOLVED

THAT

1. Council notify the NSW Independent Regulatory and Pricing Tribunal of its intention to lodge an application under Section 508(2) of the NSW Local Government Act for a permanent 9% increase in 2019/20 (to replace the expiring 4.77% Special Rate Variation in 2019/20) for the primary purposes (based on IPART categories) of:
 - a. Improvements in financial sustainability; and
 - b. Reduction in backlogs for asset maintenance and renewal.
2. The following documents be placed on public exhibition for a minimum of 28 days. This will include the following documents:
 - a. Supplementary combined Delivery Program 2017– 2021 and Operational Plan 2018/19.
 - b. 2019-2029 Long Term Financial Plan
 - c. Supplementary 2017-2021 Workforce Plan
 - d. 2018-2028 Strategic Asset Management Plan
3. The closing date for submissions is Friday 11 January 2019.

MOVED: Councillor C Coleman

SECONDED: Councillor D Goodsell

CARRIED – Unanimously

FOR

Councillor W McAndrew
Councillor C Coleman
Councillor D Goodsell
Councillor D Goodwin
Councillor S Lesslie
Councillor S Ring
Councillor J Smith
Councillor M Statham

AGAINST

NIL

As part of this process the following documents which form the Integrated Planning and Reporting Framework were adopted:

- **Supplementary Combined 2017-21 Delivery Program and 2018/19 Operational Plan** –Pages 4 and 15 were amended.

Message from the Mayor – Our Place, Our Future (p4)

I am pleased to present to you the Supplementary Combined Delivery Program 2017/18 – 2020/21 and Operational Plan 2018/19.

This supplementary version of the Combined Delivery Program 2017/18 2020/21 and Operational Plan 2018/19 reiterates Council's intention to engage with the community on its proposal to apply for a permanent Special Rate Variation of 9% to commence in 2019/20. This will extend the current SRV of 4.77% with an increase of 4.23% plus the annual rate peg

The expiration of the current 4.77% special rate variation on 30 June 2019 will reduce Council's general rate revenue by \$624,000 and thereby reduce Council's ability to continue to deliver the current levels of service experienced by the community. The proposal to retain the current SRV of 4.77% plus apply for an additional 4.23% plus annual rate peg will ensure a projected income for 2019/20 of \$1,178million. This will allow Council to increase funding for the following assets:

- *Transport (sealed roads, unsealed roads, footpaths, cycleways, bridges and road drainage)*
- *Stormwater Drainage*
- *Buildings*

Increasing the level of funding for these assets will allow council to renew those which are currently in a poor condition. It will also ensure that the number of assets in poor condition does not continue to grow. It is essential that our community assets are safe, in working order and meet

community expectations. The expenditure will ensure that the Fit for the Future asset benchmarks are met over time.

The remainder of the increased funding (approx. \$100,000 p.a.) will be spent on business improvement initiatives which will either generate additional revenue or reduce long-term costs.

In making this decision Council is ensuring that we consider the community's capacity to pay and that we continue to apply for grants and seek funding from corporate and alternative sources of sponsorship to maximise the value of our annual budgetary commitments.

Cr Ray Thompson
Mayor

Proposed Special Rate Variation (p 15)

The 2019-2029 Long Term Financial Plan (LTFP) includes a Sustainable Assets Scenario, which locks in further organisational improvements and identifies the need to apply to replace the existing infrastructure special rate variation (SRV) of 4.77% when it expires. In the 2019-29 LTFP scenario, a replacement SRV is planned to commence in 2019/20. It is proposed to apply for a replacement SRV to commence in 2019/20, following the expiry of the current SRV.

If Council is successful in an application for a new permanent SRV of 9% to commence in 2019/20, together with the proposed improvement measures included in the LTFP, Council will be assured of its financial sustainability and will be able to meet all of the Fit for the Future (FFTF) ratios over the 10 year term of the LTFP. The proposed SRV represents the continuation of the existing 4.77% SRV together with a further 4.23%. The ongoing identification of organisational efficiencies, cost savings and maximisation of revenue will assist Council to overcome its financial sustainability challenges with the lowest possible impact on ratepayers.

The preferred scenario is that Council seeks an SRV of 9% when the existing SRV for infrastructure improvements expires at the end of 2018/19. The new SRV in 2019/20 will mean an additional increase of 4.23% for ratepayers at that time. This, when combined with other improvement measures, enables Council to operate with a small surplus which provides additional cash resources to help fund extra infrastructure renewals. These financial results make the Council 'fit' in accordance with the Office of Local Government guidelines. In the LTFP Scenario, Council is able to meet the operating performance ratio from 2019/20 onwards. Council will closely monitor its operating result and budget to ensure an operating surplus is retained. This means that Council will continue to operate largely within its existing funding levels and implement a number of improvement initiatives, including ongoing service reviews, to ensure ratepayers receive an agreed affordable level of service and that the services are provided in an efficient and cost effective manner.

While the LTFP Scenario does mean that Council will seek another SRV of 9% from 2019/20, the actual impact on ratepayers is only an additional 4.23%. If there was no approved SRV in 2019/20, ratepayers could expect a fall in their rates of 4.77%. Without a new SRV, the rate peg (which is 2.7% for 2019/20) would be applied to the lower rate base resulting in a net decrease in rates of approximately \$624,000. In the SRV Scenario, 2019/20 ratepayers will receive a further 4.23% increase in that year. Council will continue its efforts to find further improvements to reduce the reliance on the additional SRV application.

Another benefit of the LTFP Scenario is that the cash reserve balance for general fund trends upwards from 2024. This places Council in a sound cash position with ongoing capacity to fund asset renewals.

- **Supplementary Workforce Plan 2017-2021**– updated to include information on the Special Rate Variation (pp7-8)

The community will be engaged on two Scenarios for ensuring a sustainable future. In communicating these options, the Council will outline the following:

The magnitude of the financial challenge and infrastructure funding shortfall facing the local government area (LGA) over the next 10 years and its impact on service levels.

The need to consider community “capacity” to pay additional rates in determining the options to be presented.

The need for residents to be able to have their say on whether or not they are prepared to pay additional rates to maintain and/or improve service levels.

The two scenarios, which have been developed for community consideration, are:

- Scenario 1- Current SRV expires + rate peg

On 1 July 2019, the current 4.77% SRV expires. A 2.7% rate peg would be added to the lower rate base. The projected loss of rates revenue due to the expiry of the current SRV is estimated at \$624,000 for the 2019/20 year.

This is estimated to reduce Council’s workforce by two entry level positions.

- Scenario 2 - Maintain the current SRV + rate peg + one-off (permanent) 4.23% SRV

Council proposes to apply to retain the current SRV of 4.77%. Council also plans to request an additional one-off SRV of 4.23%. The total SRV application will be for a 9% increase in rates revenue (i.e. the current 4.77% SRV plus a new 4.23% SRV). The 2.7% rate peg will also be added. The impact on ratepayers will be a new 4.23% SRV plus the rate peg. The projected total SRV income (from maintaining the current SRV plus adding the new SRV) is estimated at \$1.178 million for the 2019/20 year.

It is estimated that this could translate into an extra 5.5 entry level positions. This is based on the assumption that day labour would be used to undertake work on asset projects.

Importantly, the allocation of funding would be subject to legislatively required annual Service and Asset Management Plan reviews and to addressing priority risk mitigation actions. Expenditure would target critical service/ asset priorities that the community places a high value on and / or those that have a high risk profile.

- **Strategic Asset Management Plan 2019-29**– updated in line with the Scenario 3 – Sustainable Assets Projections identified in the Long Term Financial Plan 2019-29 (Pages 15-17)

Infrastructure Backlog

Council’s infrastructure backlog represents the cost to bring assets in a worn and poor condition up to an acceptable standard.

Council has recently reviewed the asset registers and the backlog figures, which was previously reported in Special Schedule 7, 2017 / 2018 as \$28Million. Council’s asset data such as unit rates, condition ratings and useful lives were revised and a new methodology for determining the infrastructure backlog has been applied.

The infrastructure backlog ratio compares the backlog figure to the written down value of our assets (WDV). Figure 1 show how the ratio decreases from 2019 / 2020, moving towards meeting the 2% OLG target by the later years of the plan. The ratio determines if the asset backlog is manageable. Figure 1 shows the Infrastructure backlog over a ten-year (10) period (Long Term Financial Plan Scenario 3 – Sustainable Assets). The projections each year are based on the previous year’s backlog, adding depreciation and deducting renewal expenditure. The renewal expenditure is adopted in the Long Term Financial Plan (LTFP) and will be revised each year to ensure that Council reallocates renewal to asset groups with a higher backlog figure.

| Infrastructure Backlog Ratio (%) | Projected 18/19 | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Budget 27/28 | Budget 28/29 |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|
| Buildings and Infrastructure | 6.3% | 5.3% | 4.2% | 3.8% | 3.2% | 2.9% | 2.4% | 1.9% | 1.6% | 1.3% | 0.8% |

Figure 1 Infrastructure Backlog Ratios (identified in the LTFP Scenario 3 – Sustainable Assets)

Asset Renewal Expenditure

Renewal is the activities undertaken to refurbish or replace assets with assets of equivalent capacity or performance capacity. Renewal works are included in Council's Capital Works Program.

Figure 2 displays the asset renewal ratio forecasts identified in Council's ten (10) year Long Term Financial Plan (Scenario 3 – Sustainable Assets). The asset renewal ratio compares renewal expenditure to the depreciation of assets. The ratio indicates if the asset renewal expenditure is sufficient to maintain the assets in the long-term. The 2017 / 2018 actual ratio was 87%, below the sustainable target of 100%. The 2018 LTFP (Scenario 3 – Sustainable Assets) demonstrates that Council plans to exceed the OLG benchmark of 100% by 2018 / 2019, and continue to maintain this level for future years.

| Asset Renewal Ratio (%) | Projected 18/19 | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Budget 27/28 | Budget 28/29 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|
| Buildings and Infrastructure | 133.0% | 145.2% | 141.0% | 109.7% | 116.2% | 108.2% | 112.8% | 116.3% | 107.0% | 106.7% | 159.2% |

Figure 2 Asset Renewal Ratio (identified in the Long-Term Financial Plan Scenario 3 – Sustainable Assets)

Asset Maintenance Expenditure

Asset maintenance is the activity required or undertaken by Council to preserve the original condition of the assets. The required maintenance, which is reported in Special Schedule 7, is the amount that Council should be spending on its assets and is based on the percentage of the replacement cost. Actual maintenance includes the budgeted amount that Council will spend on preventative, corrective and reactive maintenance annually.

Figure 3 displays the asset maintenance ratio forecasts identified in Council's ten (10) year Long-Term Financial Plan (Scenario 3 – Sustainable Assets). The asset maintenance ratio compares the figures and demonstrates how Council meets the OLG benchmark of 100% in the final years of the Long-Term Financial Plan. Maintenance expenditure will have to be revised each year to ensure that Council remains on track to meet the 100% benchmark within the term of the LTFP.

| Asset Maintenance Ratio (%) | Projected 18/19 | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Budget 27/28 | Budget 28/29 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|
| Buildings and Infrastructure | 77% | 80% | 82% | 85% | 87% | 90% | 93% | 96% | 99% | 103% | 106% |

Figure 3 Asset Maintenance Ratio (identified in the Long-Term Financial Plan Scenario 3 – Sustainable Assets)

New / Upgrade Expenditure

Capital new works expenditure creates assets which will deliver a service to community that didn't exist beforehand, whilst capital upgrade enhances an existing asset to provide a higher level of service to the community. New and upgrade works are included in Council's Capital Works Program and are funded through a combination of rate funding, Section 94a contributions, successful grant applications and loan funding. Figure 4 shows the ten-year (10) capital new and upgrade expenditure forecasts identified in Council's Long-Term Financial Plan (Scenario 3 – Sustainable Assets).

| New & Upgrade Asset Expenditure (\$) | Projected 19/20 | Projected 20/21 | Projected 21/22 | Projected 22/23 | Projected 23/24 | Projected 24/25 | Projected 25/26 | Projected 26/27 | Projected 27/28 | Projected 28/29 |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Building and Infrastructure | | | | | | | | | | |
| – Asset Renewals | 11,816 | 12,102 | 10,844 | 12,102 | 11,121 | 11,632 | 12,226 | 11,467 | 11,653 | 12,782 |
| - New Assets | 1,241 | 209 | 214 | 219 | 223 | 228 | 233 | 239 | 244 | 249 |
| Water Fund | | | | | | | | | | |
| – Asset Renewals | 4,632 | 1,550 | 1,901 | 1,573 | 1,595 | 1,687 | 1,710 | 1,733 | 1,757 | 7,781 |
| - New Assets | 184 | 285 | 136 | 136 | 4457 | 1988 | 139 | 140 | 141 | 142 |
| Sewer Fund | | | | | | | | | | |
| – Asset Renewals | 310 | 2,910 | 1,040 | 1,843 | 1,967 | 1,992 | 2,117 | 2,043 | 2,069 | 2,196 |
| - New Assets | 2,534 | 6,435 | 1,436 | 36 | 37 | 38 | 39 | 40 | 41 | 42 |

Figure 4 – Asset Renewals and New Assets

Long Term Financial Plan 2019-29– the following summary outlines the additional revenue generated from the proposed SRV.

| Impact on average rate | Average Rate 2018/19 \$ | Average Rate 2019/20 \$ | Variance \$ per annum | Variance \$ per week |
|--------------------------|----------------------------|----------------------------|--------------------------|-------------------------|
| Residential Rates | | | | |
| Scenario 1 | 763.00 | 747.00 | -16.00 | |
| Scenario 2 | 763.00 | 815.00 | 52.00 | 1.00 |
| Business Rates | | | | |
| Scenario 1 | 3,950.00 | 3,868.00 | -82.00 | |
| Scenario 2 | 3,950.00 | 4,225.00 | 275.00 | 5.29 |
| Farmland Rates | | | | |
| Scenario 1 | 1,439.00 | 1,410.00 | -29.00 | |
| Scenario 2 | 1,439.00 | 1,539.00 | 100.00 | 1.92 |
| Mining Rates | | | | |
| Scenario 1 | 160,461.00 | 157,139.00 | -3,322.00 | |
| Scenario 2 | 160,461.00 | 171,581.00 | 11,120.00 | 213.85 |

| Income Statement - General Fund | Budget 2018/19 | Projected 2019/20 | Projected 2020/21 | Projected 2021/22 | Projected 2022/23 | Projected 2023/24 | Projected 2024/25 | Projected 2025/26 | Projected 2026/27 | Projected 2027/28 | Projected 2028/29 |
|--|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| For the year | | | | | | | | | | | |
| Income from Continuing Operations Revenue: | | | | | | | | | | | |
| Ordinary Rates | 11,375 | 11,567 | 11,769 | 12,005 | 12,275 | 12,582 | 12,896 | 13,219 | 13,549 | 13,888 | 14,235 |
| Ordinary Rates - SRV | 551 | 559 | 559 | 1,068 | 1,081 | 1,096 | 1,111 | 1,126 | 1,142 | 1,158 | 1,174 |
| Special Rates | 246 | 246 | 250 | 255 | 261 | 268 | 274 | 281 | 288 | 295 | 303 |
| Annual Charges | 4,038 | 4,286 | 4,372 | 4,459 | 4,559 | 4,673 | 4,790 | 4,910 | 5,033 | 5,158 | 5,287 |
| Rates and Annual Charges | 16,679 | 17,728 | 18,176 | 18,624 | 19,084 | 19,555 | 20,037 | 20,532 | 21,039 | 21,559 | 22,092 |

Scenario 3 - Financial Statements – 2019-29 LTFP (p56-64)

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.

The council should quantify in dollar terms its past and future productivity improvements and cost savings and present these as a percentage of operating expenditure where possible.

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.

The council may also provide indicators of efficiency, either over time or in comparison to other relevant councils (eg, it may provide trends for its operating expenditure as a percentage of population). We will make similar comparisons using various indicators and OLG data provided to us.

Council has progressed in implementing a Performance Improvement Plan incorporating a range of strategies and actions to improve the Council's financial performance and to build strategic capacity for the future. These improvement strategies include:

- a service review program, with a minimum of three service reviews per year
- a more commercial approach to those services where there is a sole and direct beneficiary of the service
- a review of a range of governance practices and procedures that will deliver organisational efficiencies
- analysis of the long term demand, need and type of facilities that meet the community requirements
- the implementation of an asset management improvement plan prioritised actions
- the implementation of a financial management improvement plan prioritised actions
- the introduction of zero-based budgeting from 2017/18 to provide a more solid foundation for the Operational Plan
- provision of additional resources to boost Council's strategic capacity in the areas of asset management and finance.

Proposed 2018/19 Service Reductions

The Council took a zero-based budgeting approach in developing the draft 2018/19 budget. The approach involved a systematic review of the actual cost of funding service programs. Historical costs were utilised as a reference guide. In addition, internal overhead allocations were thoroughly reviewed to ensure that they accurately reflected direct and indirect costs.

The first draft of the 2018/19 budget using the new approach resulted in a consolidated operating deficit (before capital) of (\$1.373M).

To reduce the operating deficit (before capital), the following action was taken:

- 10% reduction in operating service levels (e.g. maintenance) in Transport and Recreation;
- Postponement of non-essential operating programs;
- Up to 25% reduction in priority operating project budgets;
- Adjustments to the materials and contracts and other expenses budgets to truly reflect historical funding costs, as well as holding budgets to 2017/18 levels;
- Review of revenue budgets to maximise own source operating revenue (i.e. income excluding grants and contributions); and
- Exclusion of all business cases involving new appointments, with the exception of a contract Service Review Coordinator role.

As a result of the above actions, the 2018/19 draft budget operating deficit (before capital) has been reduced to (\$637K).

Operational efficiencies

- **Lithgow Animal Shelter** – 90% of animals returned to owners or rehomed. Developing a Facebook page and uploading new animals received at the shelter has contributed to this success rate.
- **Lithgow Regional Economic Development Strategy 2018-2022** was developed by State & Regional Development. Regional Economic Development Strategies (REDS) is based on the concept of a Functional Economic Region (FER), which usually incorporates more than one local government area. Lithgow was identified has a stand-alone FER. The REDS provides a clear economic development strategy for the region. It will also enable faster access to dedicated state funding, such as the Growing Local Economies Fund, and may also be used to support other types of government grant applications.
- **Eskbank House & Museum** was listed on the State Heritage Register. State Heritage listing means that the museum and its collections are protected under the NSW Heritage Act and also enables Council to seek funding for capital and other improvements.
- Council through its **public toilet improvement program** is replacing a number of aged non-compliant public toilets with modern Exeloo type facilities. These structures are self-cleansing and electronically controlled so that they can be opened and closed at pre-set times. Cost to the community is reduced through a reduction in call-outs for additional cleaning, less staff time on repairs resulting from vandalism and opening and closing the facility. It also provides a modern, clean toilet facility for use by ratepayers and visitors to Lithgow.
- Improvements have already been completed to the Administration Centre and the Centrelink Office with the **installation of computer controlled Building Management Systems** for the operation

of the heating and cooling systems in these buildings. This is aimed at reducing overall operating cost and overall energy consumption through reduction in gas and electricity usage in these buildings.

- **New LED lighting** has been installed in the Administration Centre and Centrelink to also reduce the greenhouse footprint and overall operating costs.
- In 2016/17 Council undertook a review of its works program with the aim of reducing Council's ongoing asset depreciation costs. Percentages of maintenance funding were reallocated to renewals projects. The allocation is based on the expected percentages of renewal works required over a 12 month period based on analysis of the previous 5 years of maintenance expenditure data. Included in this analysis is a breakdown of salary, plant and materials expenses to more accurately break down the requirements.

The purpose of this renewal budgeting in addition to maintenance funding is to ensure allocation of recurrent maintenance funds to works that extend the life of an asset rather than simply maintain an asset to its expected end-of-life. Typically, these works would be conducted based on best practice intervention points, ensuring works are performed prior to capital reconstruction being required. This process comes with two main benefits, the first being a reduction in capital expenditure over time due to extended asset life spans and the second a reduction in ongoing asset depreciation rates if intervention points are followed.

- Approximately **25,000 tonnes of recycled material** was sourced from the Roads and Maritime Services as part of their Great Western Highway upgrade works. Usually, this material is taken to landfill however Lithgow Council roads engineers were able to facilitate its re-use on rural unsealed roads to reduce the environmental impact within the local area and increase the scope of these projects with minimal impact to the approved budget.
- The implementation of the **Water Loss Management System** has allowed council to better account for all water produced. In 2016/17, council installed meters on all council facilities which will result in a decrease in unaccounted water for Council.

Council is also rolling out new metered standpipes across the Local Government Area to allow easier access for all residents to bulk treated potable water.

- Construction of a **Resource Recovery Centre (RRC)** commenced at the Lithgow Solid Waste Facility which is expected to be operational in 2019/20.

The RRC will consist of:

- A recycling shed and transfer station to serve as a drop off location for small residential vehicles
- Separate areas to sort and place re-usable and recyclable items.
- A Community Recycling Centre where problem wastes can be dropped off including paint, oil, batteries, gas cylinders, fluorescent light tubes and smoke detectors.
- Recovered materials will be sent off-site for further processing and/or beneficial re-use.
- A stockpile area will allow sorting and processing of construction and commercial waste to provide further resource recovery and increased diversion from landfill.
- Council resolved to replace the Local Government Area's 1,490 Mercury Vapour Street Lamps with **LED technology** resulting in reduced greenhouse emissions and much lower running costs, a saving of approximately \$90,000 per annum.
- **Asset Management Mobility System** - Allows for work orders, inspections, defects and asset survey to be done via mobile devices.
- **Implementation of Bookable**, a venue booking system which makes the process of venue bookings at Council a significantly simpler, faster and more engaging process for the internal user and more importantly the community. Bookable is the first Local Government-only venue

booking solution and which provides a single place to address the long-standing need for powerful, effective booking software that supports Local Government's unique requirements. . Bookable has the following capability and functionality:

- Caters for any venue type
- Caters for seasonality of venues (e.g. sporting fields)
- Allows for flexible pricing of hiring fees
- Offers automation and self-service for customers

The benefits of switching to the Bookable booking software system include:

- A significant saving of staff time in accepting and managing bookings;
- Improved service to the community via access to an only facility booking portal;
- Improved promotion of venues due to higher visibility/ ease of searching which should lead to greater usage and more income; and
- Adding to the ongoing technological advancement of Council's operations and a major efficiency improvement.

It is expected that a 50% reduction in staff time can be achieved for the following facility booking tasks:

- Telephone / front counter enquiries;
- Managing booking calendars (this would be mainly an automated process with staff oversight and review);
- Managing seasonal bookings for sporting facilities; and
- Managing cemetery bookings.

Some tasks would be eliminated or completely automated, including:

- Taking of temporary bookings pending receipt of application forms;
- Managing / recording application forms;
- Letters of acceptance of bookings; and
- Raising of debtor invoices and manual payment processing.

Time savings in Customer Service are estimated at 7 hours (1 staff day) per week. The Infrastructure Services Administration Assistant will also save a significant amount of time, particularly for seasonal sporting facility bookings (estimated saving of 30 minutes to an hour per booking) and for cemetery bookings. Time will also be saved for Eskbank House bookings. Bookable will also facilitate easier booking of the Union Theatre, with increased usage anticipated following the completion of approved building works.

The following projects have been identified for consideration as part of the 2019/20 Operational Plan:

- **Electronic Fine Software with Belt Printer** - This will allow Council Rangers to complete and print all Penalty Infringement Notice (PIN) including parking tickets in the field with greater speed and accuracy reducing time to process fines and disputes.
- **Installation of solar panels** at the JM Robson Aquatic Centre and the Lithgow Library Learning Centre.
- **Stores Replenishment Software** - which will result in efficiencies and cost reductions through higher level of automation in the store resulting in increased controls, reduced labour costs, reduced stock write offs, reduce stock leakages and maximise cash flow.
- **Mobile Device Management System** - Council has approximately 150 mobile devices including phones, tablets and laptops in its fleet. Airwatch will allow management of these devices for software updates, and the ability to manage devices in event of being lost/stolen. A system that will allow for increased security, a method to rollout updates and software, and a way to managed lost and stolen devices.
- Change over of **Council's fleet of lease vehicles** to Small Medium vehicle/hybrid or Medium SUV AWD.

In 2018/19, Council commenced a process of reviewing its leaseback vehicle policy with the aim of reducing the ongoing cost to Council. Predominantly, this has occurred through a review of two main aspects of the policy as follows:

- Purchase price and ongoing costs of the vehicle including maintenance and fuel; and
- The leaseback fees charged to staff affecting the cost of this program to staff.

Noting that this program plays a key role in attracting quality staff to Council and thereby providing quality services to the community, the following objectives have been achieved in the first half of 2018/19.

- The maximum allowed increase in leaseback vehicle fees (10%) has been applied to conventional fuel-only vehicles with a nominal CPI increase (~2.5%) on hybrids to encourage uptake as a result of their cheaper purchase price and running costs.
- Vehicle selection (model and specification) has been greatly reduced and purchase prices have been tendered for to ensure the best possible price.
- Council's executive team have adopted hybrids in place of V6 and V8 sedans as well as large diesel 4WDs in a conscious effort to reduce cost and drive change throughout the organisation.

This is a process of ongoing change with the next stage of the process being to review position-based eligibility throughout the organisation, noting the importance of this policy in attracting and retaining key members of staff.

- **Implementation of ePlanning** - Customers will benefit from such things as e lodgement, property information online
- **Performance Appraisal Module** - will improve the business processes for conducting performance appraisals
- Continuation of the **upgrade of the Union Theatre**. In 2018/19 Council has commenced a major upgrade to the Theatre with the construction of dressing rooms. In 2019/20 it is proposed to upgrade the sound and lighting system using digital and LED technology. This will increase the number of performances and revenue enabling Council to market the facility to attract travelling stage shows increasing hire and patronage.

2018/19 fees and charges

In 2017, Council staff undertook training in the review and development of Fees and Charges. Following this process, a review of key fees and charges was undertaken with 70% of Council's Fees and Charges being reviewed. The remainder of the Fees and Charges will be reviewed in 2018/19 for implementation in 2019/20. Council reviews its fees and charges annually as part of the annual Operational Plan and Budget process. In addition to this, fees and charges will be reviewed as part of the Service Review and business improvement process.

Service reviews

In 2018/19, Council commenced a program of Service Reviews. To date the following actions have been undertaken:

- Implemented a new Organisational structure – Economic Development & Environment, People & Services, Finance & Assets, Water & Wastewater and Infrastructure Services.
- Training for management and key staff in service reviews.
- Appointed a Service Review Coordinator and commenced review of the following services:
 - Ranger Services
 - Cemetery Services

- Library Services
- JM Robson Aquatic Centre
- Engaged Blackadder & Associates to undertake a review of the Operations Department. Recommendations are being implemented including the creation of two separate divisions; Water & Wastewater and Infrastructure Services, and the alignment of all building and facilities management under Infrastructure Services.
- Engaged Micromex Consulting to undertake an Asset Management Study.
- Engaged Martin Bass from LGNSW to convene a Community Reference Panel to identify Service Priorities and future service needs.
- Engaged community working parties to assist in developing policy and strategies on:
 - o Tourism and events
 - o The decline in the retail sector

Implementation of Asset Management Improvement Plan

The Asset Management Improvement Plan is reviewed annually. The Plan prioritises specific capability areas which were identified through a gap analysis process, and where action is required to raise Council's asset management capacity to the desired level of maturity. Implementation of these improvements requires resourcing and monitoring. The actions have been integrated into Council's Delivery Program to ensure ongoing resourcing, implementation and performance monitoring.

Grants and corporate sponsorship – Infrastructure Improvements

2016/17 Grants

- Portland Sewerage Treatment Plant Upgrade - \$7,147,259
- Landfill Consolidation Grant - NSW Environmental Trust (EPA) - \$6,493
- Community Recycling Centre (CRC) - NSW Environmental Trust - \$133,706
- Community Building Partnership - All Abilities Round About - \$16,000
- Roads to Recovery Program - \$1,585,252
- NSW War Memorial Grant Program - \$8,595

2017/18 Grants

- CBD Revitalisation - \$652,275
- BlackSpot - Hartley Valley Road - \$362,643
- CCTV Tony Luchetti Showground - \$10,000
- Blast Furnace - \$1,298,050
- Adventure Playground - \$343,962
- Lithgow Tennis Courts - \$36,006
- Lithgow Basketball Courts - \$74,315
- Portland Sewerage Treatment Plant - \$652,714

Corporate Sponsorship:

- Lithgow - \$5,788.00
- Halloween - \$42,819.00 including \$10,000 in-kind.

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

9 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: Lithgow City Council

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

General Manager (name): Graeme Faulkner

Signature and Date:

Responsible Accounting Officer (name): Ross Gurney

Signature and Date:

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