

Independent Pricing and Regulatory Tribunal
New South Wales

Special Variation Application Form – Part B

For 2018-19

Insert Name of Council: Shoalhaven City Council

Date Submitted to IPART: 9 February 2018

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The Independent Pricing and Regulatory Tribunal (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

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

As outlined in the Guidelines, new councils created in 2016 (apart from Mid-Coast Council) will be ineligible for special variations for the 2018-19 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 15 December 2017.

Any councils that did not notify but intend to apply for a special variation for 2018-19 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 12 February 2018**.

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 70MB 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 it submitting its application to us. Also refer to section 6 for a more detailed explanation.

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

2.2 Key purpose of special variation

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

Maintain existing services	<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.

2.2.1 Purpose of Council's application

Council is seeking a special rate increase to general income under Section 508A of the Local Government Act for successive annual increases over three years of 17.1% in 2018/19, 5.0% in 2019/20 and 5.0% in 2020/21, including the rate peg, which are permanently retained within the rates base.

For 2017/18, IPART determined that the special variation that was approved in May 2017 could be retained in Council's general income base for one year and was to be removed in 2018/19. The effect of Council's current application is to seek to retain the 13.2% special variation (including the Verons Estate component), approved as a one-off increase in 2017/18, as a permanent increase and for additional special variations (inclusive of the rate peg) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21.

The proposed special variation is for the purpose of improving Council's financial sustainability, funding capital expenditure for asset renewal, reducing the operating deficit, reducing its infrastructure backlog and funding asset maintenance.

Council has been under increasing pressure for a number of years to provide the level and extent of services expected by the community. A further impact on the provision of these services is Council's aging infrastructure as there are insufficient funds to support the service expectations as well as renew and maintain the existing asset base to the required level.

Over the past two years, Council has also increased service levels and introduced new services that impact on the operating result of the organisation. In addition, Council has received contributed assets through new subdivisions and new buildings as constructed.

Outlined below are some of these increases in service levels and new assets:

- RFS buildings at West Nowra & SES shed - increases in contributions
- Additional staff - Development Planners, Compliance Officer, Swimming Pool Compliance Officer, Communications Unit, Shoalhaven Entertainment Centre, GIPAA, Assets and Data management to meet workloads and community demands.
- Peak period additional street bin servicing
- Peak period additional Ranger patrols - Hyams Beach
- Flood damage restoration for non-essential assets not funded by NDRRA (Walking tracks, recreation areas)
- Beach erosion and other coastal impacts from natural events (pathways, access ways, dune systems, Council infrastructure
- Roads, footpaths, drains, parks and playground equipment from new subdivisions - Bayswood, Green Orchid and Ulladulla
- Other enhanced or new assets constructed and now being maintained and depreciated
 - Ulladulla Civic Centre enhancements
 - Nowra Pool enhancements
 - New Amenities at Burrill Lake
 - ½ court Basketball court - Mollymook
 - Skate park, Manyana and Sanctuary Point
 - 59 Owen Street Huskisson - Sealed Car Park
 - Learn to Ride facility Clifton Park
 - Learn to Ride facility Shoalhaven Heads

- Learn to Ride Facility Sussex Inlet
- Playground facilities including Rae Abood Oval and Mollymook (Liv's Place)
- New pontoons - Shoalhaven River, Nowra and Huskisson, Currumbene Creek
- New and enhanced boat launching ramps and upgrades to access:
 - Currarong
 - Sanctuary Point
 - Sussex Inlet
 - Huskisson
 - Ulladulla Harbour
 - Woollamia
- New shared pathways
 - Callala
 - Milton to Frogs Holla
 - Ulladulla to Burrill
 - Princes Highway, South Nowra

There will be large contributed assets in future financial years from RMS with the hand-over of new paths, old bridges and roads after the opening of the Berry bypass and Burrill Lake bridge. All of these result in additional whole of life costs and impact expenditure with a flow on effect to levels of service, impacting the bottom line of the financial result. There is also the impact of depreciation of these assets, a further burden on Council's bottom line.

The additional revenue will fund the shortfall in the renewals and maintenance program and the resource base that will improve Council's long term financial sustainability. The program will deliver increased annual funding to help address the gap in infrastructure renewal, particularly for roads, and fund a capital renewal program for existing infrastructure in very poor condition. The program will also significantly improve Council's long term financial sustainability as required by the State Governments Fit for the Future criteria.

The special rate proposal will not allow Council to cover the full cost of replacing the assets for which Council is the custodian over the term of its latest Long Term Financial Plan. This is the ongoing challenge to Council at a time of rising expectations, cost shifting from other levels of government and increased use of our facilities by the visitors that contribute to our local economy. The proposed special rate increases are the minimum needed for Council to cover the costs of its operations by 2020/21.

The Verons Estate component is to fund a twenty-year loan of \$2.3m for the purpose of providing essential infrastructure to the Estate (fire safety and road infrastructure), so that development can occur.

2.2.2 Background to decision to make an application

Shoalhaven City Council has attempted to address three key issues over the last ten or so years:

1. Dealing with its asset renewal and maintenance backlog
2. Pursuing efficiencies to become financially sustainable, that is, to best achieve the goals of the community and provide services, now and into the future, within its limited resources
3. Mitigating the impact of cost shifting from other levels of government (estimated at \$17M for 2015/16) and increased use of its facilities from visitation.

The following timeline summarises the background and history to Council's latest special variation application to IPART:

Year	Actions
2007	<p>Increased focus on assets</p> <p>In 2007, as the Independent Inquiry into Financial Sustainability of Local Government was published, Council adopted Asset Management Plans that concluded Council had a substantial infrastructure renewal backlog. Successive updates continue to identify that this renewal backlog would continue to deteriorate, if nothing changed. Since this time, Council has implemented operational improvements to enable more funds to be made available for renewals and maintenance. Council has been very successful in seeking grant funds for renewing and upgrading assets. These improvements, while increasing the amount of funds available for asset renewal, have not been sufficient in the longer term.</p>
2012	<p>TCorp Review</p> <p>Since TCorp presented Council with its Financial Assessment and Benchmarking report in October 2012, Council has been on a path to improve its financial sustainability. The TCorp report provided Council with an external review of its financial outlook. Council's Financial Sustainability Rating (FSR) was strong but the outlook was rated negative: "A negative outlook indicates that the Council's FSR is more likely to deteriorate and is a sign of a general weakness in performance and sustainability. (p6 TCorp (April 2013), <i>Financial Sustainability of the NSW Local Government Sector</i>).</p>
2012	<p>Elected Council Actions</p> <p>There was a significant change of Councillors in the September 2012 election, with 10 new councillors (out of 13) being elected. The newly elected Council made a number of decisions to address Council's long term financial situation. The key imperative at that time was an efficiency review, carried out by Blackadder and Associates Pty Ltd, in February 2013. This review included an organisational restructure and associated reviews of cost structures and services provided.</p>

	<p>Known as the Transformation Program, the review resulted in significant savings as outlined part 7 of this submission.</p> <p>A community infrastructure survey was undertaken in December 2012 and January 2013 to determine priorities and the willingness to pay to improve the condition of assets.</p>														
2013	<p>Council resolved to seek a special variation of 8% (including the rate peg of 3.4%) to fund asset renewal.</p> <p>On 23 June 2013, Council resolved to exhibit a wide range of Asset Management Plans (AMPs). This led to extensive consultation with the community in relation to the community's understanding of the current assets of the city, the need to undertake further maintenance and renewal and the accepted standard for assets.</p> <p>Meetings with the Community Consultative Bodies (CCBs) occurred between July 2013 and October 2013 and community consultation meetings were held at the following villages:</p> <table> <tr> <td>Berry</td> <td>St Georges Basin</td> </tr> <tr> <td>Shoalhaven Heads</td> <td>Tomerong</td> </tr> <tr> <td>Cambewarra</td> <td>Sussex Inlet</td> </tr> <tr> <td>Greenwell Pt</td> <td>Bendalong</td> </tr> <tr> <td>Culburra Beach</td> <td>Ulladulla</td> </tr> <tr> <td>Callala Bay</td> <td>Lake Tabourie</td> </tr> <tr> <td>Currarong</td> <td>Kioloa</td> </tr> </table> <p>Staff presented asset related information at these CCB meetings and sought feedback from these groups in relation to the levels of service they desired for the city's assets. As a result, levels of service were adjusted in Asset Management Plans (AMPs), where necessary, to match those indicated by CCBs.</p>	Berry	St Georges Basin	Shoalhaven Heads	Tomerong	Cambewarra	Sussex Inlet	Greenwell Pt	Bendalong	Culburra Beach	Ulladulla	Callala Bay	Lake Tabourie	Currarong	Kioloa
Berry	St Georges Basin														
Shoalhaven Heads	Tomerong														
Cambewarra	Sussex Inlet														
Greenwell Pt	Bendalong														
Culburra Beach	Ulladulla														
Callala Bay	Lake Tabourie														
Currarong	Kioloa														
2014	<p>Financial Sustainability Report</p> <p>A Financial Sustainability Report was prepared in 2014 to highlight the issues around Council's financial position and the need to either significantly cut/reduce services and/or increase revenue/rates. A briefing was booked for September 2014. Two days before this briefing, the NSW Government announced the Fit for the Future Program. The material in the briefing was in line with the State Government's direction and the briefing proceeded under the heading of Fit for the Future. Following the briefing, a report was presented to Council.</p> <p>At the 28 October 2014 Ordinary Meeting of Council, the following recommendation was adopted following consideration of the Financial Sustainability Report (Attachment 1):</p>														

	<p><i>RECOMMENDED that Council adopts the following recommendations from the Report of the General Manager (Corporate and Community Services Group) on the Financial Sustainability of Council:</i></p> <ul style="list-style-type: none"> <i>a) Council notes the current long term financial position of the organisation and begins Community Engagement with regard to ways to address Council's financial position</i> <i>b) The General Manager and staff commence to prepare the necessary documentation in relation to the State Government's "Fit for the Future" Program.</i> <i>c) The General Manager introduce formalised continuous improvement principles and processes to the organisation</i> <i>d) The General Manager continues to drive cultural changes throughout the organisation in order to address Council's long term financial sustainability.</i> <i>e) Council adopt the key principles with regard to future Loan borrowings, Asset Rationalisation and Revotes as covered in the Financial Sustainability report attached.</i> <i>f) That a further report be presented to Council on recommended principles and opportunities for asset and service rationalisation and their relationship to the Long Term Financial Plan.</i> <i>g) That staff undertake a review and report to Council on opportunities for increased income generation from Council's assets and services.</i>
<p>2015</p>	<p>Fit for the Future Submission</p> <p>Fundamental to cost reduction at Council was adoption of Lean Thinking, a philosophy driven by the senior executive team across all levels of the organisation. Council established an internal Business Improvement Unit with the mandate to drive continuous improvement using Lean.</p> <p>At the 23 June 2015 Council meeting, Council made the following resolution:</p> <p>That Council adopts the attached submission (including template) which meets, or shows improvements to meet all Fit for the Future assessment criteria by 2020 and resolve for the proposal to be uploaded to the Independent Pricing and Regulatory (IPART) website by 30th June 2015. This includes rate rises of 7.5% over 2 years above any IPART rate peg amount (2017/18 and 2018/19).</p> <p>The submission clearly outlined the unsustainable financial position of council and provided recommendations in relation to action that needed to be taken to become financially sustainable and Fit for the Future.</p> <p>Council's Fit for the Future submission was independently assessed by IPART which resulted in IPART determining that Council would be financially sustainable based on implementing the detailed information and strategies provided.</p>

	<p>The key driver for the submission was continued shortfall in maintenance and renewal programs undertaken on assets held on behalf of the community, in particular, those with poor condition and low community satisfaction, such as roads and toilets. As the custodian of \$1.7 billion in General Fund assets, Council has the responsibility to maintain these resources to ensure the community gets maximum value from them. Since that time, additional and upgraded facilities and assets have come on line, including Pyree Lane and Bolong road upgrades, Turpentine Road, RFS and SES buildings, Nowra Aquatic Park, Ulladulla Civic Centre, and contributed assets of Bayswood, Twin Waters and Green Orchid estates.</p> <p>More recently, the Office of Local Government introduced its Stronger, Smarter Councils imperative, with the main outcome being “Fit for the Future” Councils. Shoalhaven City Council recognised, as part of this process, that the key lever to ensure financial sustainability was a substantial rate increase to ensure a breakeven three (3) year average Operating Performance Ratio by 2020.</p>
<p>2016</p>	<p>Council has reviewed all user pay fees and charges in the three years to 2016. Staff developed training in pricing, marketing and costing methodologies and, between 2014 and 2016, income from user fees and charges increased by 15% (approximately \$2 million annually). Over two thirds of this revenue has a restricted use within Crown Land reserves and, with the same increase again over the next two years from the remaining fees and charges, revenue would only increase by a further \$2.2m, leaving a shortfall. Council has forecast increases of 4% annually for fees and charges in its Long Term Financial Plan; this is the limit that the community would accept and is able to pay. Further detail is provided in Section 3 of this submission.</p> <p>At the 25 October 2016 Council Ordinary Meeting, following several years of considering and acting to address its financial position, Council resolved to move forward with a Special Rate Variation. The resolution of that meeting was:</p> <p><i>MIN 16.792 That Council:</i></p> <p><i>Authorise staff to notify the IPART of its intention to apply for a Special Rate Variation Application for the following three (3) models of rate increase:</i></p> <ul style="list-style-type: none"> <i>a. 11.5% over 2 years (plus the rate peg)</i> <i>b. 6.27% over 4 years (plus the rate peg)</i> <i>c. 5% over 7 years (plus the rate peg)</i> <ol style="list-style-type: none"> <i>1. Work on any anomalies within the rating categories that would possibly produce additional rate income</i> <i>2. Receive a report modelling the community's capacity to pay for rate increases.</i> <i>3. Council undertake an extensive community engagement program explaining the reason for the rate increase and seek the community's comments.</i>

	<p><i>FOR: Clr Findley, Clr Gash, Clr Wells, Clr Levett, Clr Cheyne, Clr Alldrick and Clr Gartner</i></p> <p><i>AGAINST: Clr Guile, Clr Pakes, Clr Watson, Clr Kitchener and Clr Proudfoot</i></p> <p><i>CARRIED</i></p> <p>In addition, landowners and Council developed a clear direction in terms of the rezoning and development potential of land in the Veron’s Estate. However, the Estate cannot be properly and safely developed until roadworks are completed at an estimated cost of \$2.13M. Council considered a range of cost recovery options and a special rate funded loan was the most viable option. This is consistent with the approach taken for the Special Rate application for Jerberra Estate in 2015.</p> <p><i>On 10th November 2016, Council resolved as per MIN16.794 SA16.13:</i></p> <p><i>That</i></p> <ol style="list-style-type: none"> <i>1. Council authorise staff to notify IPART of its intention to prepare a Special Variation application for a \$2.13m loan-funded special rate levy (‘Special Rate Variation’) so that Council can provide essential road infrastructure in Verons Estate;</i> <i>2. 17% of the total cost be met by the broader rate base based in recognition of the potential benefit of the road upgrades to the broader community including properties fronting Sussex Inlet Road which have rear access onto Mokau Road.</i> <i>3. Further details of the proposed funding arrangement be refined in consultation with the affected landowners; and</i> <i>4. Unless there are substantial changes to the details provided in this report, the Special Rate Variation application to IPART be submitted before the February 2017 deadline.</i> <i>5. During the notification to IPART Council hold a Public meeting with the land owners and the community.</i> <p><i>For: Clr Findley, Clr Gash, Clr White, Clr Wells, Clr Levett, Clr Cheyne, Clr Guile, Clr Pakes, Clr Watson, Clr Proudfoot and Russ Pigg</i></p> <p><i>Against: Nil</i></p> <p><i>CARRIED</i></p> <p>Council subsequently notified IPART of this intention and undertook a community engagement program.</p>
<p>2017</p>	<p>Application for Special Rate Variation 2017/18</p> <p>Council’s Long Term Financial Plan and Financial Sustainability Report are regularly updated. The key reasons for Council’s application for a special variation in February 2017/18, compared to the June 2015 submission, were:</p> <ul style="list-style-type: none"> • Overall increase of \$817,000 in the emergency services contributions to the State

	<ul style="list-style-type: none"> • A reduction of \$448,000 from the model to the actual rate peg of 1.8% in 2016/17 • A reduction of \$600,000 from the model to the actual rate peg of 1.5% in 2017/18 • Increase in general operating expenditure of \$434,000 <p>At the 1 February 2017 (Min 17.71) Extraordinary Meeting, Council considered an extensive report (Attachment 2) following the community engagement and resolved to proceed with a Special Rate Variation. The resolution reads:-</p> <ol style="list-style-type: none"> 1. <i>Council receive the feedback and results of the community engagement</i> 2. <i>Council endorse a financial sustainability approach that includes continued improvement in our procurement and asset management practices and improving productivity and implementing a Special Rate Variation</i> 3. <i>Council authorise staff to make formal application to the Independent Pricing and Regulatory Tribunal (IPART) and lodge a Section 508A Special Rate Variation (SRV) on general income for an increase of 11.5% in 2017/18 and 11.5% in 2018/19, above rate peg for each of the 2 years in order for Council to financially support the ongoing provision of service levels to the community and increase levels of asset maintenance and renewal.</i> 4. <i>Staff provide a report to the next Ordinary Council Meeting on the establishment of a Citizen's Panel to provide recommendations to Council on priority areas for expenditure related to the Special Rate Variation</i> 5. <i>Council accept the submission from The Shoalhaven Independents on behalf of the ratepayers and residents who attended protest meetings at St Georges Basin, Bomaderry, Huskisson and Nowra as part of the overall submissions and the submission also be reported to IPART.</i> 6. <i>The General Manager report back to Council on how Council could capture any business that is operating from residential premises and re-categorise to business and if there are any legislative hurdles should Council wish to pursue this as an ongoing part of revenue review. This should include the cost for resourcing such a project- this suggestion was put to Council by concerned ratepayers.</i> 7. <i>The General Manager report back if any other Councils apply a levy or any other mechanism to increase rates on those properties that are known to supply accommodation to the tourism industry and are essentially a business- these properties would be those listed by real estate agents and online mechanisms such as Air BnB and Stayz -this suggestion has been raised by concerned business operators.</i> 8. <i>The General Manager also report back on any measures that can be used to essentially pass some of the financial burden of maintaining assets onto the many tourist that come to the Shoalhaven, suggestions that have come through include parking meters for peak tourist times and places and bed taxes. The report should also include any legislative or resourcing issues for such matters.</i> 9. <i>In reporting back could the General Manager please comment on any timing issues that could be foreseen if such mechanisms were to be adopted by Council.</i>
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	<p>10. Council refer the matters raised by an Independent Auditor in a recent confidential meeting with councillors to Council's Risk & Audit committee for consideration and any further advice.</p> <p>Subsequently a submission was provided to IPART for consideration seeking increases above the rate peg of 13.2% in 2017/18 (including actual rate peg limit of 1.5%) and 14% in 2018/19 (including IPART estimated rate peg limit of 2.5%).</p> <p>Council was advised on 9 May 2017 that IPART determined Council's Special Rate Variation application and allowed the special variation, in part, on a one-year temporary basis. It was outlined in the decision that Council did not update its IP&R documents to include the full Special Rate Variation increase sought prior to applying to IPART. Therefore, IPART did not approve a permanent increase in general income. However, Council did demonstrate a clear need for additional revenue to ensure its financial sustainability and to fund increased infrastructure maintenance and renewal.</p> <p>This allowed Council to increase its general rate income by 13.2% in 2017/18. The decision allowed Council to continue to execute its Delivery Program in 2017/18 while updating its Integrated Planning and Reporting (IP&R) documentation and reapplying to IPART in future years.</p> <p>On 13 June 2017, a report was provided to Council (CL17.149) outlining the Special Rate Variation – IPART Decision.</p> <p>At this meeting Council resolved to adopt the Special Rate Variation of 13.2% including rate peg of 1.5% for 2017/18 financial year – MIN 17.519</p>
<p>2017</p>	<p>Application for Special Rate Variation 2018/19</p> <p>As part of the normal Integrated Planning and Reporting Process that Council undertakes each year Council resolved on 4 April 2017 to exhibit and engage with the community on the Community Strategic Plan (CSP) review – MIN 17.255</p> <p>As part of this community engagement process Council outlined the special rate variation that had recently been adopted by Council and the need for further measures to ensure Council would remain financially sustainable into the future.</p> <p>The Community Engagement process sought to obtain the community's key priorities and to identify goals and actions for the next four years. These would be used to guide Council's future decision making and assist in the allocation of budget and resources. An updated long term financial plan which included the existing special rate variation and future financial pathways was also exhibited along with the resourcing strategy (including assets management plan and workforce plan).</p> <p>On 13 June 2017, Council resolved to receive the CSP Review – Community Engagement Report for information. Council also resolved to adopt the Integrated Strategic Plan (ISP) chapters (which includes the CSP, DPOP, Long</p>

Term Financial Plan, Resourcing Strategy) at this meeting (Minutes [MIN17.517](#), [17.518](#), [17.520](#), [17.523](#), [17.524](#) to [17.529](#) and [17.530](#))

Pathways to Financial Sustainability- SRV 2018 /19

Given the approved 2017/18 SRV was only a temporary measure, Council needed to determine the future sustainability measures that could be implemented to ensure Council continued on a financially sustainable pathway. On 26 September 2017 a presentation was given to Councillors - Pathways to financial sustainability: Resourcing Issues ([CL 17.272](#)).

On 26 September 2017, Council resolved to adopt Option 1 of the report to retain the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks [MIN 17.886](#)

In order to meet the requirements of IPART in relation to this SRV application, amendments were made to Council's IP&R documents. An additional chapter was added to the ISP - Chapter 7 Special Rate Variation and changes were also made to the LTFFP, DPOP and CSP. The proposed changes were provided to Council in a report on 17 October 2017 ([Min 17.916](#)) where Council resolved:

1. *Council adopt the proposed changes to the Integrated Strategic Plan (inclusive of the changes made to the Community Strategic Plan, Delivery Program, and Long Term Financial Plan) for exhibition purposes, in addition to the following;*
 - a. *For the 2017/18 and next financial year 2018/19 the \$10,000 from the Aerial Beach Patrol be used for beach safety signage*
 - b. *The funding of \$4.5million for the Vincentia Library be deferred to a subsequent year pending a workshop*
2. *The Long Term financial plan be fully updated prior to exhibition to reflect the changes outlined above as well as changes to potential loan borrowings resulting from consideration of the impacts of the North Nowra Link Road and Collector Roads and the update be distributed to Councillors prior to exhibition*
3. *Council include from the rate increase \$500,000pa to the upgrade of our sporting fields (Refer to Report SA17.270)*
4. *A report be submitted to the Ordinary meeting of 24 October 2017 outlining the above.*

On the 24th October 2017 a further report was provided to Councils Ordinary meeting ([CL 17.295](#)).

The report included:

- Chapter 1 - CSP
- Chapter 2 - DPOP
- Chapter 3 - Financials

- Chapter 5 - Budget and Capital Works
- Chapter 6 - Resourcing Strategy
- Chapter 7 Special Rate Variation

At this meeting Council resolved (MIN 17.944) to:

1. *Adopt the proposed changes to the Integrated Strategic Plan, inclusive of the changes made to the Delivery Program, Operational Plan and Long Term Financial Plan (LTFFP), for exhibition purposes;*
2. *Publish the updated document and proceed with community engagement on the proposed document changes and its impact on the community.*

A community consultation process and exhibition process was undertaken to explain the SRV proposal to the community and seek feedback on the amendments to the Integrated Strategic Plan that were made to outline the SRV proposal and Council's financial position. Details of this engagement process undertaken in accordance with IPART Guidelines are covered in Part 4 of this application.

On 28 November 2017, a report (CL 17.326) was provided to Council outlining the outcomes of the exhibition process that was carried out for the Special Rate Variation Proposal and the Integrated Strategic Plan exhibition (which included changes to the document resulting from the SRV proposal). To seek Council's adoption of the amended ISP documents and seek determination of whether Council intends to make an application to IPART for a SRV.

Council resolved (MIN 17.999) at this meeting to:

1. *Receive the feedback and results of community engagement*
2. *Adopt the amended Integrated Strategic Plan 2017 including the CSP, DPOP, Long Term Financial Plan and Chapter 7 SRV which include changes made to this document to specifically outline the proposed SRV, impact on residents and proposed expenditure of the SRV.*
3. *Authorise staff to notify IPART of its intention to apply for a Special Rate Variation Application for the retention of the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks.*
4. *That Council proceed with the formal Special Rate Variation Application for 2018/19 and submit this in line with the timelines set by IPART (i.e. February 2018).*

On 6 December 2017, Council submitted a notification of its intention to submit a Special Rate Variation application to IPART (D17/419824).

Verons Estate

Verons Estate, which comprises a subdivision of 32 lots was registered in 1920, but remains undeveloped.

The first planning scheme was gazetted on 28 February 1964 and replaced by the SLEP in 1985. The zoning generally prevented the erection of dwellings on individual allotments under 40 ha in size. Council resolved to investigate rezoning Verons Estate in 1993 on the basis that landowners would meet all costs. **(See Attachment 3)**

In 1994, there was a State Government rezoning moratorium for the Sussex Inlet Area. This moratorium was lifted in 2007 and Council adopted the Sussex Inlet Settlement Strategy which included a “neutral or beneficial effect” requirement for land draining to “sensitive coastal waterbodies”, this had implications for Lots 20 – 32 (Swan Lake)

In 2009-2010, Council sought and obtained clarification from State agencies on the “neutral or beneficial effect requirement.”

After a series of reports and landowner consultation from 2010 – 2011 in April 2011, Council resolved to:

- a) “Accept that land within the Swan Lake catchment is unable to be rezoned for rural residential development, until a neutral or beneficial effect study (NorBE) is undertaken and demonstrated...”

In June 2012 Council resolved to prepare and submit a draft Planning Proposal, which was submitted to the DP&I in May 2013, with a Gateway determination issued on 7 June 2013.

On 30 July 2013, Council resolved to a) exhibit the Verons Estate PP and b) remove the road design and construction special rates from Lots 20 to 32 (MIN13.715).

Verons Estate Planning Proposal was exhibited in August and September 2013 and finalised in September 2014. Properties were rezoned with a mix of E2, E3 and E4, with dwelling entitlements on Lots 1 to 19. Lots 20, 28 and 29 are “1964 holdings” and can also potentially have dwellings approved. Other lots used to varying extents.

The estate has long dead-end roads potentially dangerous in a bushfire emergency. The Planning Proposal was finalised on the basis that the roads will be upgraded. Unless upgraded, the Estate, as a whole, cannot be safely developed.

Landowners and Council now have a clear direction in terms of the land’s rezoning and development potential. However, the Estate cannot be properly and safely developed until roadworks are completed.

The estimated cost for providing these works is \$2.13M. Council has considered a range of cost recovery options and a special rate funded loan is the most viable option. This is consistent with the approach taken for the Special Rate application for Jerberra Estate in 2015.

On 25 October 2016, Council resolved as per [MIN16.794 SA16.13](#):

That

- 1. Council authorise staff to notify IPART of its intention to prepare a Special Variation application for a \$2.13m loan-funded special rate levy ('Special Rate Variation') so that Council can provide essential road infrastructure in Verons Estate;*
- 2. 17% of the total cost be met by the broader rate base based in recognition of the potential benefit of the road upgrades to the broader community including properties fronting Sussex Inlet Road which have rear access onto Mokau Road.*
- 3. Further details of the proposed funding arrangement be refined in consultation with the affected landowners; and*
- 4. Unless there are substantial changes to the details provided in this report, the Special Rate Variation application to IPART be submitted before the February 2017 deadline.*
- 5. During the notification to IPART Council hold a Public meeting with the land owners and the community.*

For: Clr Findley, Clr Gash, Clr White, Clr Wells, Clr Levett, Clr Cheyne, Clr Guile, Clr Pakes, Clr Watson, Clr Proudfoot and Russ Pigg

Against: Nil

CARRIED

This rate variation was included in the 13.2% applied as a temporary increase. As such this was included as part of the discussions relating to the existing temporary increase that had been applied.

Council resolved ([MIN 17.999](#)) at this meeting to:

- 1. Receive the feedback and results of community engagement*
- 2. Adopt the amended Integrated Strategic Plan 2017 including the CSP, DPOP, Long Term Financial Plan and Chapter 7 SRV which include changes made to this document to specifically outline the proposed SRV, impact on residents and proposed expenditure of the SRV.*
- 3. Authorise staff to notify IPART of its intention to apply for a Special Rate Variation Application for the retention of the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in*



	<p><i>2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks.</i></p> <p>4. <i>That Council proceed with the formal Special Rate Variation Application for 2018/19 and submit this in line with the timelines set by IPART (i.e. February 2018).</i></p> <p>On 6 December 2017, Council submitted a notification of its intention to submit a Special Rate Variation application to IPART (D17/419824).</p>
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2.3 Capital expenditure review

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

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

Does the proposed special variation require council to do a capital expenditure review in accordance with OLG Circular to Councils, Circular No 10-34 dated 20 December 2010	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If <i>Yes</i> , has a review been done and submitted to OLG?	Yes <input type="checkbox"/>	No <input type="checkbox"/>

3 Assessment Criterion 1: Need for the variation

Criterion 1 in the OLG Guidelines is:

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

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

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

Evidence could also include the assessment of the council's financial sustainability conducted by 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

Summarise and explain below:

- ▼ How the council identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision.
- ▼ How the decision to seek higher revenues above the rate peg was made and which other options were examined, such as changing expenditure priorities or using alternative modes of service delivery.
- ▼ Why the proposed special variation is the most appropriate option: for example, typically other options would include introducing new or higher user charges and/or an increase in council loan borrowings, or private public partnerships or joint ventures.

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

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

3.1.1 Community needs and desires

- ▼ How the council identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision.

Council has measured the community's level of satisfaction with the provision of services and facilities and with Council's performance over the period of 2014 to 2017. The survey is conducted as a random telephone interview by an independent provider (IRIS) of a demographically representative sample of the Shoalhaven community.

This survey shows a clear dissatisfaction with the current state of Shoalhaven's roads and infrastructure over the survey period. A comparison of the results over time shows that community satisfaction increases in these areas with a correlating increase in expenditure.

A summary of results is provided below:

2014

- Building new road and footpath connections - Mean satisfaction scores ranged from 2.51 to 2.82 out of 5 which are both considered 'low'.
- Provision of footpaths and walking paths is the item that residents are most satisfied with in this key service area, with one third of residents (33.9%) giving a high satisfaction rating.
- Maintain our infrastructure - All services in this category received 'medium' mean satisfaction scores, with the exception of public toilets.
- The provision of sporting fields received a mean satisfaction score of 3.62, making it the item that residents are most satisfied with within this key service area.
- 50% or more of residents recorded mean scores in the high range for sporting fields, community buildings and halls and parks, playgrounds and reserves.
- 36.4% of residents scored a 'low' satisfaction rating for public toilets which caused a 'low' mean score of 2.83.

2015

- Several service areas registered low satisfaction ratings: unsealed rural roads (mean score 2.44 out of 5); sealed rural roads (2.48); car parks (2.63); provision of footpaths and walking paths (2.82); and making the most of waterways (2.98).

Figure 1 - Sealed Roads

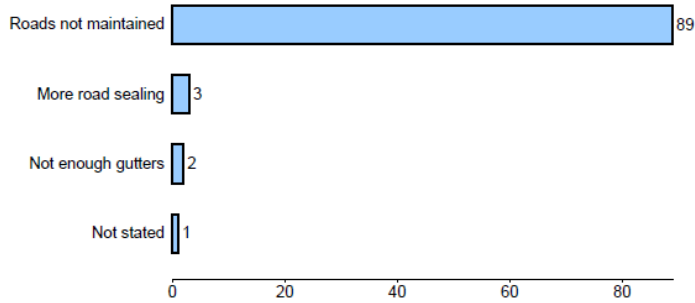


Figure 2 - Unsealed Roads

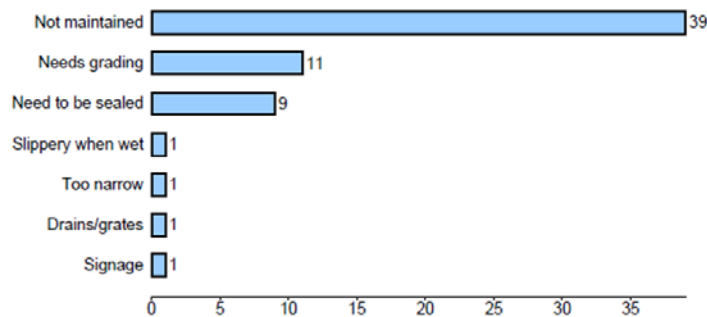
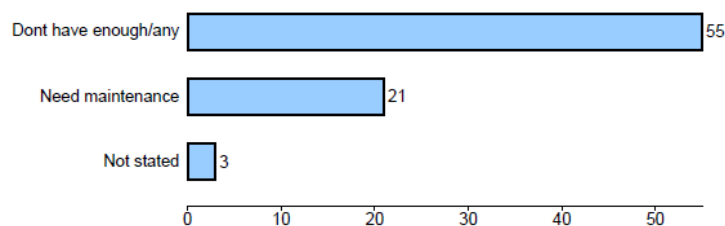


Figure 3 - Provision of footpaths and walking paths



2016

- Several service areas registered low satisfaction ratings: sealed rural roads (mean score 2.62 out of 5); unsealed rural roads (2.72); making the most of waterways (2.85); car parks (2.87); and managing commercial development (2.94).
- Provision of footpaths and walking paths (3.10) recorded a medium level satisfaction score (mean score between 3.0 and 3.74), while the other three services in this category fell into the low satisfaction category with mean scores below 3.0 out of 5.

- Unsealed rural roads have shown a statistically significant improvement on their 2015 mean. Roads and footpaths still remain at unsatisfactory levels for the community. The extract below from the survey provides the 2016 results

Figure 4 - Extract of 2016 Survey -Sealed Roads, Unsealed Roads and Footpaths and Walking Paths

Figure 3.7.4 Sealed rural roads (n=35)



Figure 3.7.5 Unsealed rural roads (n=20)

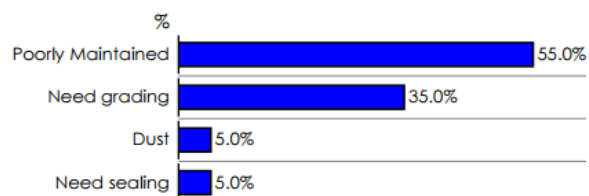
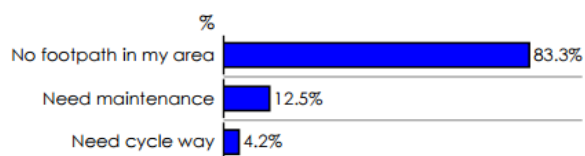


Figure 3.7.6 Provision of footpaths and walking paths (n=24)



2017

- Several service areas registered low satisfaction ratings: sealed rural roads (mean score 2.44 out of 5) a drop of -0.18 on last year; unsealed rural roads (2.53) a drop of -0.19; making the most of waterways (2.98) a slight increase of 0.13; provision of footpaths (2.88) a drop of -0.22; efficient processing of development applications (2.67) a drop of -0.04; and public toilets (2.91) a drop of -0.09.
- The decrease in satisfaction levels for footpaths and unsealed roads is disappointing and continues to show a strong desire by community for improved road and footpath asset
- There has also been a statistically significant change in environmental issues with: sustainable management of Shoalhaven's natural environment (3.46) a drop of -0.15; and environment protection and enforcement (3.13) a drop of -0.17. Here, again, the community is being more supportive of environmental issues and expects Council to improve its performance in this area.

Table 3.17. Satisfaction with Services and Facilities – Comparisons with 2016

		2016	2017	Difference
Overall performance satisfaction		3.43	3.40	-0.03
Sustainable, liveable environments	Maintenance of beaches and dunes	3.74	3.75	0.01
	Sustainable management of lakes and estuaries	3.41	3.58	0.17
	Sustainable management of Shoalhaven's natural environment	3.61	3.46	-0.15
	Appearance of towns and villages	3.44	3.45	0.01
	Management of stormwater and drainage	3.28	3.21	-0.07
	Management of street trees	3.20	3.20	0
	Environmental protection and enforcement	3.30	3.13	-0.17
	Provision of car parks	2.87	3.03	0.16
	Making the most of our waterfronts	2.85	2.98	0.13
	Provision of footpaths	3.10	2.88	-0.22
	Strategic land user and town planning for Shoalhaven	2.94	2.8	-0.14
	Efficient processing of development applications	2.71	2.67	-0.04
	Maintenance of unsealed local roads	2.72	2.53	-0.19
	Maintenance of sealed local roads	2.62	2.44	-0.18
			Total difference	
Prosperous communities	Promotion of tourism	3.70	3.77	0.07
	Promoting economic development	3.14	2.77	-0.37
		Total difference		-0.30
Responsible governance	Swimming pools	3.87	3.86	-0.01
	Sporting fields	3.74	3.72	-0.02
	Community buildings and halls	3.67	3.61	-0.06
	Parks, playgrounds and reserves	3.57	3.47	-0.1
	Informing the community of Council decisions, activities and services	3.20	3.15	-0.05
	Opportunities to participate in Council decision making processes	2.94	3.05	0.11
	Public toilets	3.00	2.91	-0.09
		Total difference		-0.22
Resilient, safe and inclusive communities	Library services	4.24	4.40	0.16
	Disaster response in the Shoalhaven	3.75	4.13	0.38
	Operation of sewerage and quality water services	3.98	4.04	0.06
	Hygiene standards of retail food outlets	3.91	3.87	-0.04
		Total difference		0.56

Note: Services/facilities in blue have been reworded since 2016.

Quadrant Analysis

A key deliverable of the community survey is the quadrant analysis. This tool provides information on community satisfaction levels for Council's services and facilities. In addition, it also indicates the importance of each service and the overall satisfaction the community has for Council as a whole.

What is clearly shown through each of the survey years is that roads and maintenance of assets are of high importance to the community but they are currently dissatisfied with the level of service that is provided in these areas. The derived importance for the survey years is shown below.

Figure 5 - 2014 Quadrant Analysis

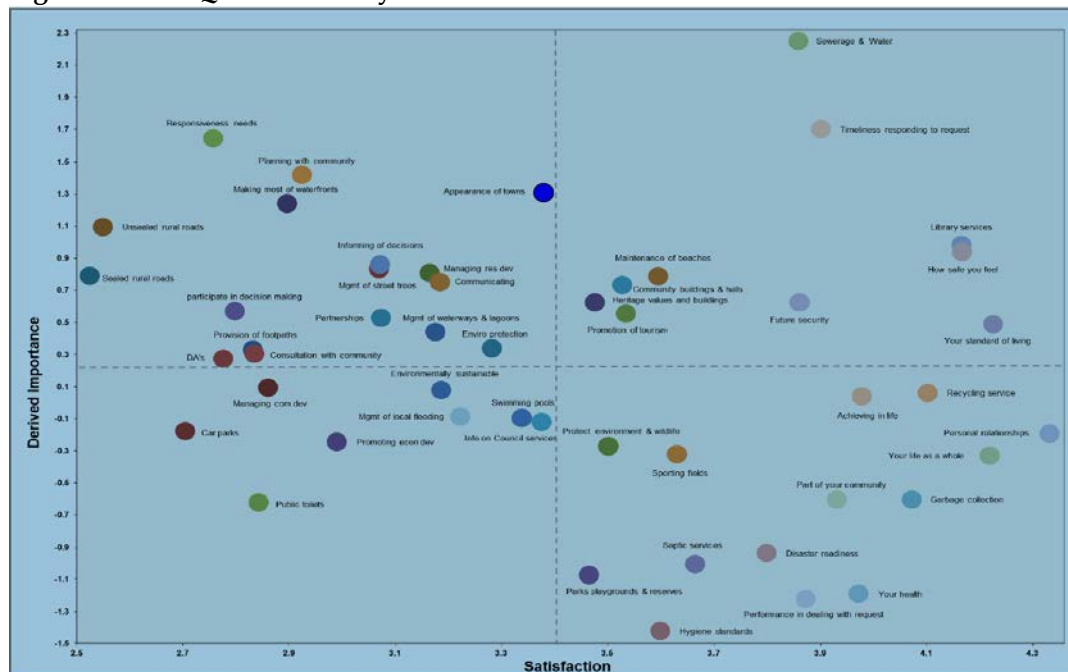


Figure 6 – 2015 Quadrant Analysis

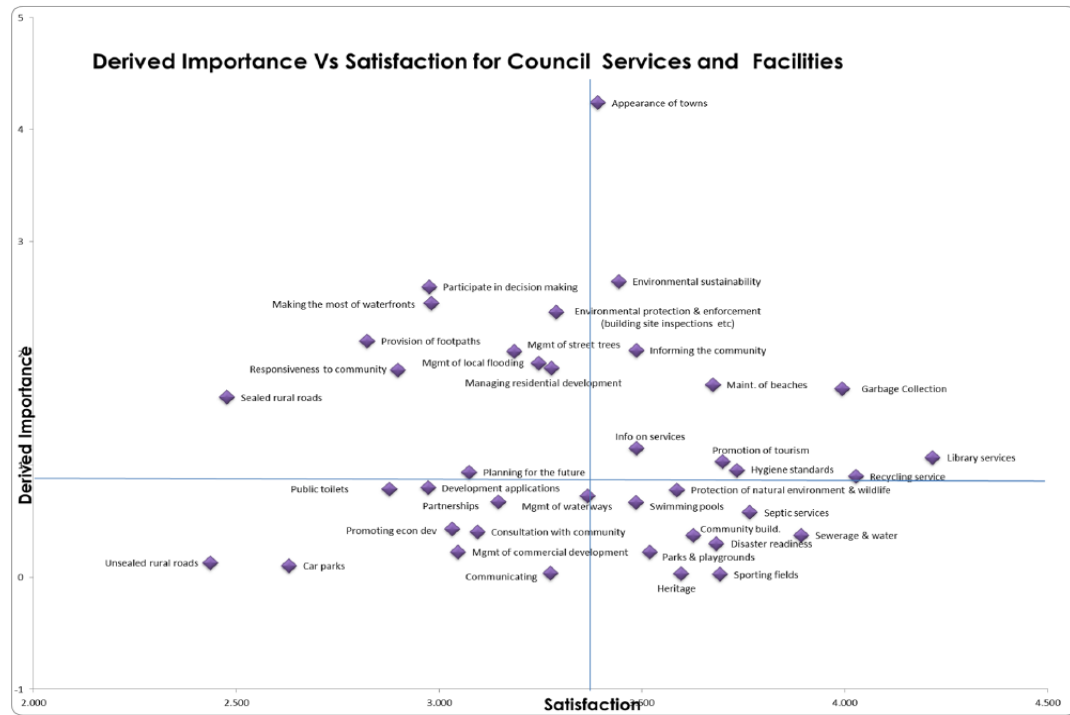
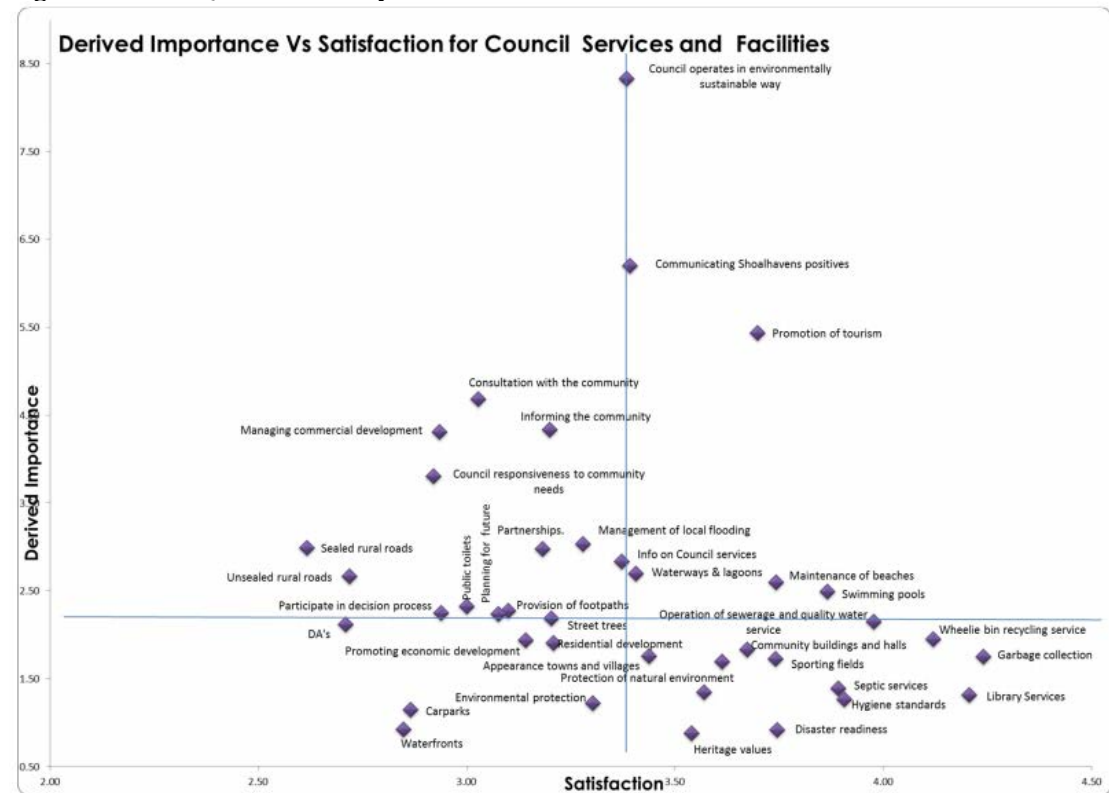


Figure 7 – 2016 Quadrant Analysis



Residents in the survey have continued to provide their reasons for dissatisfaction with services; these are provided in the tables below. The measurement scale is explained at Table 2.

Table 2 - Scale of Measuring

Scale type	Scale values		
	0-2.99	3-3.74	3.75-5
Satisfaction	Low	Medium	High

Figure 8 provides the percentage of dissatisfaction of respondents across various areas.

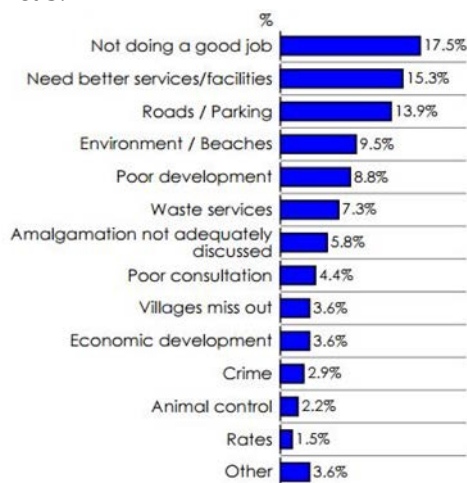


Figure 8 - Reasons for Dissatisfaction

Figure 9 provides an indication of the satisfaction levels across roads and footpaths.

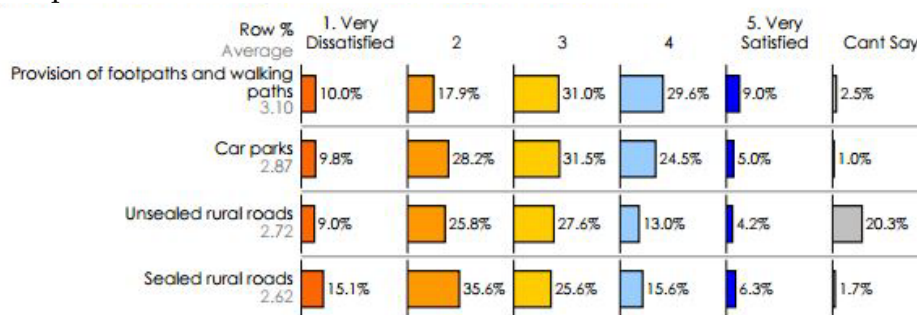


Figure 9 - Satisfaction levels across roads and footpaths.

Comparison between years

The 2014 – 2017 comparison of mean satisfaction levels across a range of services is provided in the table below. The majority of areas are showing small increases in satisfaction.

Service / Facility	2014	2015	2016	2017
Maintenance of beaches and dunes	3.59	3.67	3.74	3.75
Sustainable management of lakes and estuaries	3.17	3.37	3.41	3.58
Sustainable management of Shoalhaven's natural environment	3.49	3.59	3.61	3.46
Appearance of towns and villages	3.37	3.39	3.44	3.45
Management of stormwater and drainage (Management of local flooding)	3.21	3.25	3.28	3.21
Management of street trees	3.06	3.18	3.2	3.2
Environmental protection and enforcement	3.27	3.29	3.3	3.13
Provision of car parks	2.69	2.67	2.87	3.03
Making the most of our waterfronts	2.89	2.98	2.85	2.98
Provision of footpaths	2.82	2.82	3.1	2.88
Maintenance of unsealed local roads	2.54	2.44	2.72	2.53
Maintenance of sealed local roads	2.51	2.48	2.62	2.44
Strategic land use and town planning for Shoalhaven (Managing commercial development)	2.85	3.05	2.94	2.8
Efficient processing of development applications	2.77	2.97	2.71	2.67
Promotion of tourism	3.53	3.7	3.7	3.77
Promoting economic development	2.98	3.03	3.14	2.77
Swimming pools	3.33	3.49	3.87	3.86
Sporting fields	3.62	3.69	3.74	3.72
Community buildings and halls	3.52	3.63	3.67	3.61
Parks, playgrounds and reserves	3.45	3.52	3.57	3.47
Informing the community of Council decisions, activities and services	3.06	3.24	3.2	3.15
Opportunities to participate in Council decision making processes		2.98	2.94	3.05
Public toilets	2.83	2.88	3	2.91
Library services	4.16	4.22	4.24	4.4
Disaster response in the Shoalhaven	3.79	3.68	3.75	4.13
Operation of sewerage and quality water services	3.85	3.89	3.98	4.04
Hygiene standards of retail food outlets	3.59	3.73	3.91	3.87

Table 3 - 2014 – 2017 comparison of mean satisfaction

The results of the surveys have clearly guided Council in its decision making when assessing community expectations and service levels. What is very clear is the

community need for improvements to infrastructure and asset maintenance, particularly in relation to roads and other assets. Council has determined that this need simply cannot be met if there is not clear action taken to ensure Council's future financial sustainability and an application for a special variation is made.

Council has also been guided by an infrastructure survey which was carried out in 2013. Details of this are contained in Section 4 below. This information has also been used by Council to consider the community's needs and desires in relation to the levels of service and asset maintenance and renewal.

IP&R Documentation and Evidence

Evidence identifying the community's needs and desires in relation to levels of service and asset maintenance and renewal from Council's IP&R documents include:

- *Community feedback obtained during the CSP Review process*

What's important to the community:

- *Improvements to our parks and reserves*
- *Focus on better sporting facilities*
- *Better facilities for children and youth*
- *Provide more dog friendly areas*
- *Road improvement, including maintenance, renewal and resealing programs*
- *More paths and better maintenance of the ones we have*
- *More cycleways and improved road shoulders for cycling*
- *Protection and restoration of the natural environmental*
- *Mitigate and adapt to climate change*
- *Maintain our infrastructure*
- *Continue to revitalise Shoalhaven's CBDs*
- *Invest in tourism*
- *Continue to improve Nowra CBD*
- *Help to build sporting facilities that bring growth and jobs to Shoalhaven*
- *More park bins and improved cleaning in the CBD*

(Integrated Strategic Plan (ISP), Chapter 1: Our Priorities (CSP) p.14,16, 18, 20)

Council's response to community needs as described in its DPOP

Priority 4.1 Reliable services that meet daily community needs

Why is the priority important?

Council supports the community in many ways such as the provision of sport fields, swimming pools, libraries, waste services, roads, water services, development assessment, ranger services and much more. Our community expects that these services will meet their daily needs provided by Council and other government agencies into the future.

How will we know we are making a difference?

- *When the community's satisfaction with basic council services is improving*
- *When community expectations about customer service are being met*

(ISP, Chapter 2: DPOP – p.19)

Council has also clearly identified within its Resourcing Strategy the need to involve the community in determining Levels of Service (LOS) when developing Asset Management Plans (AMPs)

Principles

- *Council recognises that the preference is to allocate resources to maintain and renew existing assets.*
- *Council recognises the need to maintain its asset base and will target a long term asset sustainability index (actual replacement/renewal budget versus required funding as per AMPs) averaging 90-95% for each of the asset types above.*
- *The Asset Management Strategy will guide the development and review of AMPs and specify appropriate LOS with community consultation.*
- *To agree on LOS asset performance*
- *The management of Council's assets shall be overseen by the Asset Management Planning Committee (AMPC).*
- *Risk management, environment, social, good governance, best practice and sustainability will be considered in the development of asset strategies.*
- *Asset acquisition shall include consideration of the 'whole of life cost' of the new asset including initial capital cost, operation, maintenance, rehabilitation and disposal costs.*
- *Annual operation/maintenance budgets shall include an allowance for additional costs arising from addition of new assets through development, acquisition, dedication or leasing and/or licencing as well as an allowance to cover cost increases in line with indices relevant to each asset class.*
- *Adequate resources shall be provided to undertake regular agreed levels of inspections for risk, identifying programmed works, asset condition and renewal priorities.*
- *Utilisation and operating/maintenance costs shall be monitored to ensure that costs do not outweigh the benefits derived.*
- *Systematic and cyclic reviews will be applied to asset classes to ensure assets are managed, valued and depreciated in accordance with best practice and applicable Australian standards.*
- *Minimum utilisation measures shall be determined for all assets to determine surplus assets.*

(Resourcing Strategy 2017/2021 p.35)

and

Ensure that the community is involved in determining appropriate 'levels of service' (LOS) (quality & quantity) for physical assets and services

(Resourcing Strategy 2017/2021 p.32)

Council's Annual Community Report 2016/17 has also been used to convey community discussions about the Special Rate Variation and identify alternatives to rate increases

Leadership

Council continues to focus on excellence in governance by continually improving and refining practices within the organisation to create efficiencies and improve financial sustainability.

Over the past year, Council has engaged the community in discussions around a Special Rate Variation and alternatives to rate increases, such as a reduction in services and increases to user fees. Council was successful in having a temporary rate increase of 13.2 percent approved for 2017/18 and continues to engage the community over proposed increases for subsequent years.

Council will continue to take steps to ensure consistency with the organisation's Long Term Financial Plan and to meet the benchmarks for financial sustainability.

Council is also seeking to progress sustainability improvements across all its operations and activities, and improve the integration of sustainability outcomes in the organisation's delivery and operational plans.

(Annual Community Report 2016/17 p.12)

3.1.2 Rationale for seeking revenues above the rate peg

- ▼ 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.

As outlined in Section 2 above, Council staff have repeatedly highlighted Council's financial situation to the community, to the OLG and to IPART. The 2012 TCorp review highlighted the need for greater focus on the 10-year forecast. Since that time, Council has prepared a Financial Sustainability Report which showed that a significant increase in rates was required to bridge the gap. Subsequently, the Fit for the Future submission was completed, highlighting the then need for a rate increase of 7.5% over two years above the rate peg.

This rate increase was conveyed at community meetings that also discussed Council merger proposals. Details of this are contained in Section 4 of this submission. There was a strong level of support from the community in favour of Council standing alone and supportive of the need for a rate increase to fund current levels of service and asset maintenance and renewal.

After Council was deemed "Fit", based upon the proposed rate increase, a second edition of the Financial Sustainability Report was put to Council in September 2016. This further highlighted the need for a rate increase, albeit slightly higher than the original forecasts, due to cost shifting of emergency services levies, lower than expected rate peg amounts and increases in assets/services.

These changes resulted in a proposed increase of 13.2% for 2017/18 and 14% for 2018/19.

When the special variation for 2017/18 was approved as a temporary one-off increase, ten planning scenarios were presented and discussed at a Councillor Budget Workshop on 31 August 2017. A report was, subsequently, submitted to Council at its meeting of 26 September 2017 recommending the scenario most likely to put Council on a pathway to financial sustainability - addressing Council's operating performance deficit and asset maintenance gap by 2020/21 and making inroads on its asset renewal requirements - while limiting the financial demands on the community. The adopted scenario ([MIN17.886](#) and [MIN17.891](#)) includes continuation of the special variation granted for 2017/18 as a permanent increase and 5% special variation increases for 2018/19, 2019/20 and 2020/21.

Figure 10 shows the increasing gap in maintenance between required and actual levels, low levels of infrastructure renewals and increasing infrastructure backlog that the General Fund is facing. These ratios have been historically low and reinforce the issues identified by TCorp in 2012.

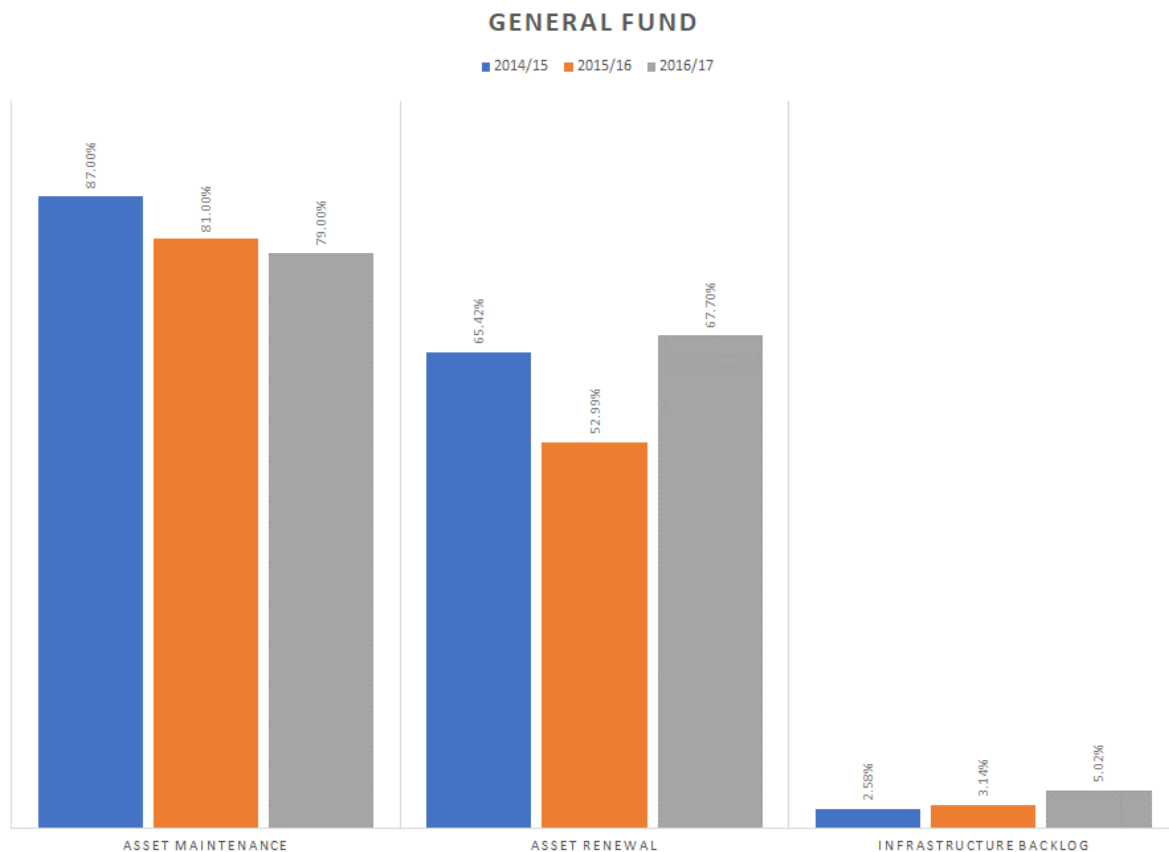


Figure 10 - Infrastructure asset performance indicators: 2014/15 to 2016/17

Council's decision to support the proposed rate variation was based on the fact that other revenue and expenditure measures would also be considered. The Financial Sustainability Report identified ongoing areas for improvement, engagement with the community and reduction in expenditure.

These targets included:

1. Increases in user pays fees and charges above CPI - \$4M increase in past two years, targeting \$500K in next two years
2. Increases in DA fees and introduction of value added services - \$470K increase in past two years (included in \$4M above), targeting \$400K in next two years
3. Introduction of parking fees - Potential to introduce in some holiday locations to cover costs of additional services requested by the community, e.g., Hyams Beach/Huskisson
4. Reduction in cost structure through efficiency initiatives - \$2.376M reduction in past four years, targeting \$250K in next two years
5. Service reviews and outsourcing where practical and cost effective - \$1.2M saved in past two years, targeting \$250K in next two years
6. The use of technology to drive efficiencies - savings have been delayed in this area due to termination of the contract with the then vendor. This is a high priority focus for the next one to two years. Savings will be addressed once the system is implemented.
7. Procurement initiatives locally and through the Joint Organisation - \$110,000 saved in past two years, target \$100,000 over the next two years

8. Energy management - \$365,000 saved in past four years, targeting \$150,000 in next two years
9. Better management of fringe benefits - \$173,000 saved in past four years targeting \$80,000 in next two years
10. Improved management of leave liabilities - targeting \$200,000 in next two years
11. Reductions in service levels, if agreement can be reached with the community - targeting \$100,000 in next two years
12. Fuel efficiencies - \$348,000 saved in past four years, targeting \$75,000 in next two years
13. Utilisation of assets and rationalisation of underutilised assets - targeting \$200,000 in next two years

Although a number of these initiatives have been achieved and others are in the process of being carried out (\$2.3M in next two years), they do not have the level of financial impact to improve the operating performance ratio to the level required. The only option to achieve the required change is an above rate peg increase.

Council also uses a range of delivery methods for its services and market tests these through tendering/EOI processes where appropriate. Over the past three years, Council has continued to use external contractors for much of its construction work and many community services, such as management of its facilities by volunteer community committees. Council has recently let the management of its Ulladulla Civic Centre to an external service provider.

The cleaning of the CBD and catering at the Shoalhaven Entertainment Centre have also been out to tender. International Tourism marketing is done in joint partnership with the State Government (DNSW) and a private business.

Council is also an active member of the Illawarra Shoalhaven Joint Organisation (ISJO) and has actively pursued more effective purchases through participating in a range of tenders and EOIs. These have included:

- Light Vehicles
- Trade Services Panel Tender
- Tree Services Panel Tender
- Legal Services Panel

With ISJO, Council will be identifying further areas for strategic procurement in 2018.

Council has also set up long term panel contracts for asphalt, bitumen resealing and concrete supply.

Even with all the actions above, there remains a significant funding gap that needs to be addressed via a special rate variation.

3.1.3 Appropriateness of the proposed special variation

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

Council has reviewed all user pay fees and charges over the last three years, staff have been trained in pricing, marketing and costing methodologies and, between 2014 and 2017, the income from fees and charges has increased by 15%. Over two thirds of this revenue has a restricted use within Crown Lands reserves and, even with the same increase again over the next two years from the remaining fees and charges, revenue would only increase by \$2.2M.

Council forecasts increases of 4% annually for fees and charges in its Long Term Financial Plan, which is the maximum that the community can bear. Table 4 below presents the last three years' fees and charges income (excluding statutory and regulatory) from Note 3(b)(ii) showing the increases achieved.

Table 4 – Fees and Charges Revenue Increase 2014/15 – 2016/17

\$'000	2014/15	2015/16	2016/17
Fees and charges	29,096	31,121	32,474
		+7.0%	+4.3%

Council has already been through a Transformation Program in the last couple of years which resulted in savings of \$6m to its cost structure.

In the last few years, Council has implemented some key principles with regard to borrowing of funds, with one of the main criteria being that the works need to relate to new or growth assets and will not be used to finance operational needs or operating deficits. The impact from borrowing funds is the additional expense incurred from borrowings, which further impacts the operating deficit currently forecast for the next 10 years, without a rate increase.

The one project that could make significant efficiency savings for Council is the implementation of a new Council-wide integrated business system. Council had been going down the path with a LG software vendor, however, after four years, the contract had to be terminated. Council has fast tracked the selection and implementation of a business system, which will achieve the efficiency savings Council needs. The current platform is non-integrated, aged technologies, which require significant manual input and duplication of effort, with very little visibility to be able to plan into the future. Unfortunately, this project will take a number of years to deliver benefits and may not result in staff reductions but will have a focus on improved efficiencies and customer service.

Due to this delay, some efficiency savings have proven to be too severe in the absence of an integrated business system. A detailed analysis of Council's resourcing requirements has identified several areas that need to be shored up to provide

current service levels to the community until system efficiencies are able to be realised.

The Do Nothing LTFP scenario (assuming reversion to the rate peg of 1.5% in 2017/18, 2.3% in 2018/19 and 2.5% thereafter) shows a cumulative 10 year forecast General Fund operating deficit, before capital grants and contributions, of \$23.4M.

The only way to make the significant change required to bring this back to a break-even result, and to fund the maintenance and renewal of aging infrastructure, is to introduce a rate increase over the rate peg.

3.1.3 Impact of proposed special variation on Long Term Financial Plan

- ▼ 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.

LTFP assumptions

The assumptions that underpin the LTFP are outlined below (Table 6). The change in the other revenue in 2020/21 is due to changes to the payment of the dividend from the Sewer fund.

Table 6 - LTFP assumptions

Consumer Price Index (CPI)	2.5%
Road and bridge construction index	1.65%
Population growth	0.6% pa
Number of assessable properties	+1.0% pa
Rate peg	2.5% pa
Financial Assistance Grant	CPI
Other recurrent government grants	+3.0% pa
Interest on investments	3.15%
Employee costs	2.3% in 17/18; 2.5%, thereafter
On-costs	38.9%
Salary savings	Target of \$233,900 in the 2017/18 budget; escalated over the forward years in line with projected award increases
Road maintenance	4%
Materials and contracts	1.5%
Electricity costs	Increase of 25% in 2018/19 and in 2019/20
Borrowings repayment schedule	
General	10 years
Verons Infrastructure	20 years

Water and sewer	15-20 years
Interest expense for new loans	4.0%
Other expenses	1.5%

Impact of proposed special variation

For several years, the LTFP has identified the need for increases above the rate peg. This was clearly documented as part of Council’s Fit for the Future submission. The table below (Table 7) provides the performance against each of the Fit for the Future measures with and without this application’s proposed special variation.

Table 7 – Fit for the Future Measures

Key Performance Indicators Statement

Indicator	Target	Scenario	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Local Government Industry Indicators												
Operating Performance Ratio	Greater than 0%	No special variation	-1.5%	-4.6%	-4.1%	-2.3%	-1.2%	-0.6%	0.0%	0.7%	1.1%	1.2%
		Special variation	-1.5%	-1.1%	-0.2%	2.2%	3.2%	3.7%	4.2%	4.8%	5.2%	5.3%
Own Source Operating Revenue Ratio	Greater than 60%	No special variation	88.4%	88.7%	88.7%	88.9%	89.7%	89.8%	89.9%	90.1%	90.1%	90.2%
		Special variation	88.4%	89.2%	89.2%	89.5%	90.3%	90.4%	90.5%	90.6%	90.7%	90.8%
Unrestricted Current Ratio	Greater than 1.5	No special variation	2.38	2.35	2.28	2.33	2.43	2.92	2.70	2.94	3.28	3.51
		Special variation	2.38	2.50	2.60	2.72	2.83	3.26	3.06	3.33	3.69	3.76
Debt Service Cover Ratio	Greater than 2.0	No special variation	5.12	3.92	4.10	4.89	5.06	5.32	6.25	6.00	6.68	7.59
		Special variation	5.12	4.81	5.09	6.20	6.33	6.61	7.74	7.38	8.20	9.30
Rates, Annual Charges, Interest and Extra Charges Outstanding Percentage	Less than 10%	No special variation	5.4%	6.1%	5.6%	5.6%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
		Special variation	5.4%	5.5%	5.5%	5.4%	4.7%	4.8%	4.8%	4.8%	4.8%	4.7%
Infrastructure Asset Performance Indicators												
Infrastructure Renewals Ratio	Greater than 100%	No special variation	70.5%	55.9%	51.5%	51.7%	46.0%	46.6%	46.5%	45.6%	48.2%	50.8%
		Special variation	70.5%	61.2%	60.1%	69.0%	69.2%	74.7%	70.9%	69.9%	72.7%	76.3%
Infrastructure Backlog Ratio	Less than 2%	No special variation	3.1%	3.2%	3.2%	3.2%	3.3%	3.3%	3.3%	3.2%	3.2%	3.2%
		Special variation	3.2%	3.2%	3.2%	3.1%	2.9%	2.8%	2.6%	2.4%	2.2%	2.0%
Asset Maintenance Ratio	Greater than 1x	No special variation	0.96	0.93	0.94	0.94	0.94	0.94	0.95	0.96	0.97	0.97
		Special variation	0.96	0.97	0.97	0.97	0.97	0.98	0.98	0.99	1.00	1.01

With the proposed special variation:

- the operating performance ratio exceeds the target of 0% by 2020/21, as required under Fit for the Future, and the cumulative operating result before capital grants and contributions over the 10 year forecast is a surplus of \$71.8M;
- the asset maintenance ratio is close to the 1x target; and
- the asset renewals and infrastructure backlog ratios trend toward target over the planning horizon. However, an average of \$15.5M pa over the planning horizon is needed to bring the Infrastructure Renewals Ratio up to the benchmark level of 100%, all other things being equal.

The Base Case contrasts strongly with a scenario where the 13.2% increase is not retained as a permanent increase to Council’s rate base and is significantly worse than one where the special variation proposed in this application is adopted.

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.

3.2.1 Background -Current financial sustainability

- ▼ 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.

In February 2017, Council applied to IPART for 13.2% and 14% general rates income increases for 2017/18 and 2018/19, including known and projected rate pegs, to fund new infrastructure investment, reduce infrastructure backlog and improve financial sustainability. Of the 2017/18 proposed increase, 0.2% was to enable Council to take out a loan of \$2M for development of road infrastructure for Verons Estate. IPART approved a one-year temporary increase of 13.2% for 2017/18 in May 2017. The one year approval was given as IPART determined Council had not updated and advertised its Integrated Planning & Reporting documents for its special variation proposal. In its determination, IPART commented "Overall, we consider on balance the community was adequately consulted, despite the IP&R documentation not discussing the full extent of the rate rise."

As part of a Councillor Budget Workshop held on 31 August 2017, options were discussed to reduce costs by adjusting service delivery and increase revenue through additional fees and charges. If they had been adopted, the impact of these changes was estimated to be \$600,000 pa, leaving a funding gap of, approximately, \$11.2M pa, once expected increases to electricity charges and operational costs associated with the Shoalhaven Indoor Sports Centre are factored into Council's Base Case scenario from 2019, that is, assuming retention of the 13.2% increase in 2017/18 as a permanent increase and 2.5% rate peg increases from 2018/19 onward. While continuation of the 2017/18 special variation as a permanent increase reduces the funding gap to \$4.1M pa, it does not allow Council to adequately address asset

renewal requirements over the 10 year planning horizon - as can be seen in Figure 11.

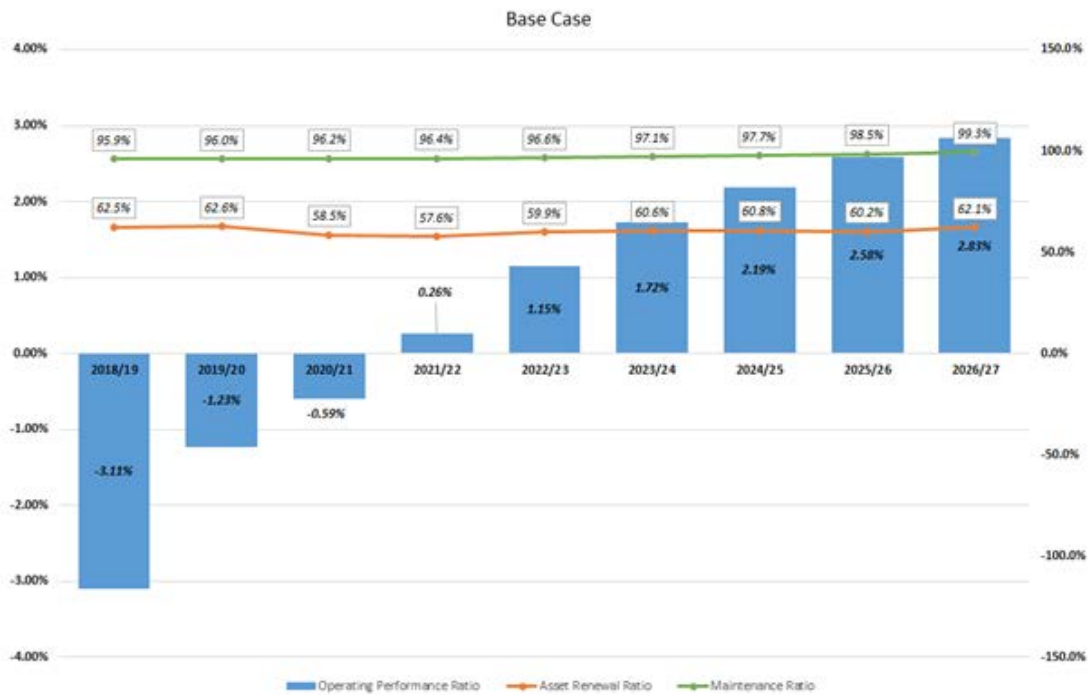


Figure 11 – Key Performance Measures Under Base Case Scenario

The operating performance ratio exceeds the target of 0% by 2021/22, a year later than required under Fit for the Future. The asset maintenance target is close to 1x target and Council moves toward the target over the planning horizon. An average of \$15.5M pa over the planning horizon is needed to bring the Infrastructure Asset Renewals Ratio up to the benchmark level of 1x, all other things being equal.

The Base Case contrasts strongly with a scenario where the 13.2% increase is not retained as a permanent increase to Council’s rate base (“Do Nothing”), as can be seen in Figure 12.



Figure 12 – Reversion to Rate Peg in 2017-18 as per IPART Determination

In this case, Council will not meet its operating performance ratio target over the planning horizon and there is a deterioration in the asset renewal ratio.

Council’s Resourcing Strategy has identified major shortfalls in resources and funding that will occur over the next 10 year period due to the need to allocate additional funding for infrastructure renewal.

Like all levels of government, Councils have limited funding available to provide the wide array of services required by the community. If Council wished to address this shortfall, it would have to either:

- 1 Increase its revenue; or
- 2 Decrease operating expenses; or
- 3 Decrease its new capital works; or
- 4 Borrow more money; or
- 5 Commence a combination of all of these.

The Resourcing Strategy presented to Council as part of the Integrated Strategic Plan 2017 identified a number of workforce challenges and, once again, highlighted the challenges to attaining financial sustainability in the absence of a special variation application – Base Case (Rate Peg Only) General Fund Financial Statements. The Base Case was updated following the announcement of the 2018/19 rate peg of 2.3% by IPART. A comparison of the Net Operating Result before capital grants is presented in Figure 13, which shows operating deficits till the latter part of the planning horizon.

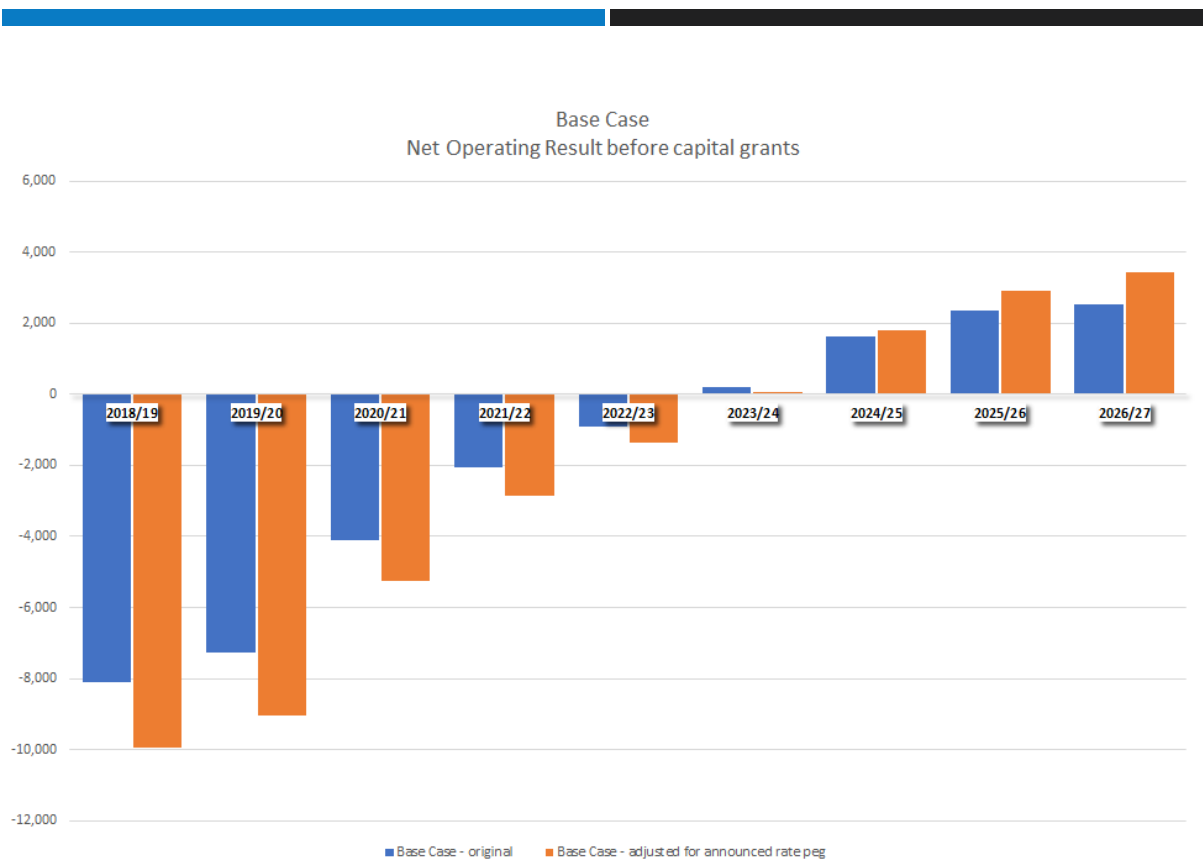


Figure 13 – Comparison of Net Operating Result before capital grants from the Integrated Strategic Plan 2017 and recently updated for the announced 2018/19 rate peg

At a Councillor Briefing on 24 August 2017, a number of resource challenges for Council were identified:

- Increasing community expectations
- Workload from a growing local economy and increased development
- Ageing workforce
- Competitiveness - ability to attract and retain the right people
- Performance against service delivery benchmarks

The Briefing identified approximately \$3.8M of ongoing resourcing needs. However, only \$2M of additional expenditure (approximately 50% of needs), phased over two years, is included in the financial modelling over the planning horizon.

3.2.2 External assessment of Council’s financial sustainability

- ▼ 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.

There have been a number of external reviews of Council financial sustainability and these are detailed below.

TCorp Review

In 2012, NSW Treasury Corporation (TCorp) undertook an analysis of the Financial Sustainability of each NSW Council. *The Financial Assessment and Benchmark Report* reviewed three years of Council operations (2009/10 - 2011/12) and conducted a detailed review of their 10 year financial forecasts. The report made the following comments in their assessment of the Shoalhaven City Council's financial situation:

Council reported \$43.1m of Infrastructure Backlog in 2011 which represents 2.3% of its infrastructure asset value of \$1,873m. Other observations include:

- *The backlog is on an upward trend particularly in the roads asset category*
- *A significant portion of the Backlog (77.9%) is related to roads assets*

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

- *The forecast shows deficit positions excluding capital grants and contributions in all forecast years*
- *Council's forecast liquidity position is particularly weak, particularly from 2015 when the Unrestricted Current Ratio falls to negative levels which indicate that Council will have difficulty meeting its day to day expenses*

The Council has posted declining operating results when grants and contributions for capital purposes are excluded.

This trend of declining operating results is not financially sustainable in the long term.

The Council has a maintenance shortfall of around \$7m each year which can impact on the condition of the infrastructures. This is reflected in an Asset Maintenance Ratio of below 1.0x in all three years.

Asset renewal spending decreased by nearly 40% (\$5.5m) over the last three years.

Operating deficits are forecast in the current 10 year model and Council is reliant on meeting its expenditure savings and productivity improvements to reach the forecast results. The declining result is not a sustainable trend.

The TCorp report presented to Council a very clear assessment of its current performance and its long-term outlook. It has been instrumental in Council determining the actions to be taken to address the long-term sustainability of the organisation.

Fit for the Future Report on Financial Sustainability

The "Report on Financial Sustainability - Shoalhaven City Council, General Fund" provides details of the issues facing Council at that time. In October 2014, in response to the report, Council adopted the following resolution:-

That Council adopts the following recommendations from the Report of the General Manager (Corporate and Community Services Group) on the Financial Sustainability of Council:

- a) Council notes the current long term financial position of the organisation and begins Community Engagement with regard to ways to address Councils Financial position
- b) The General Manager and Staff commence to prepare the necessary documentation in relation to the State Governments "Fit for the Future" Program.
- c) The General Manager introduce formalised continuous improvement principles and processes to the organisation
- d) The General Manager continues to drive cultural changes throughout the organisation in order to address Councils long term financial sustainability.
- e) Council adopt the key principles with regard to future Loan borrowings, Asset Rationalisation and Revotes as covered in the Financial Sustainability report attached.
- f) That a further report be presented to Council on recommended principles and opportunities for asset and service rationalisation and their relationship to the Long Term Financial Plan.
- g) That staff undertake a review and report to Council on opportunities for increased income generation from Council's assets and services.

Council's Fit for the Future submission also highlighted the need for rate increases to address the long-term renewal and maintenance issues facing the community.

Figure 14 below is taken from the submission and highlights the existing LTFFP at the time and the improvements gained with the rate increases and strategies proposed at that time.



Figure 14 - Operating Performance Ratio as per the 2015 Fit for the Future Submission

External Audit Report on 2016/17 General Purpose Financial Statements

On 31 October 2017, the NSW Audit Office expressed an unmodified opinion of Council's general purpose financial statements.

The Audit Report noted that:

Growth in revenue from rates and annual charges of 3.4 per cent is consistent with the 2016-17 budget.

Council's [consolidated] operating result from continuing operations \$36.6 million (2016: \$39.7 million) was also impacted by:

- depreciation and amortisation of \$59.2 million (2016: \$55.1 million)
- expenses increasing by \$17.9 million

Council's [consolidated] operating performance ratio of 2.6 per cent in 2016-17 continues to exceed the industry benchmark. However, the ratio has fallen mainly due to increases in operating expenditure.

Council's infrastructure renewals ratio is below the industry benchmark. This ratio has improved due to Council's commitment to asset renewal.

The Audit Office opinion confirms Council's commitment to addressing its ongoing gap in asset renewal. It also highlights the problem that, as Council's asset base grows, there are consequential impacts on depreciation. Actions taken by Council to address maintenance backlogs necessarily impact operating expenses.

3.2.3 Council's view of the impact of the proposed special variation

- ▼ [The council's view of the impact of the proposed special variation on its financial sustainability.](#)

Council understands that the proposed special variation is required to address its long term financial sustainability. It also understands that other measures must also be pursued, including other revenue measures outlined earlier in the report and ongoing business process improvement and expenditure measures. However, it is acknowledged that the financial gap is too large to address without the special variation as cost and service reductions can only fill a portion of the gap.

To limit the impact on the community, address some of the resourcing issues at Council and progress toward the benchmarks for the three key Fit for the Future indicators (operating performance ratio; building and infrastructure asset renewal ratio; maintenance ratio), the following multi-year special variations are proposed:

- 17.1% rate increase in 2018/19 – this increase reflects the continuation of the special variation of 13.2% (including the rate peg of 1.5%) in 2017/18 together with an additional 5% rate increase (including the rate peg of 2.3%)

- 5% rate increase(including the rate peg of 2.5%) in 2019/20
- 5% rate increase(including the rate peg of 2.5%) in 2020/21

This means that there will be a cumulative increase of 15.8% over the 2017/18 rate base (assuming the 13.2% special variation is retained as a permanent increase), which is 4% lower than the cumulative increase based on Council’s original 14% SRV for 2018/19. The increase will, however, allow Council to meet its Fit for the Future targets but at a slower rate.

The chart in Figure 15 shows the projected impact on the key financial indicators of this proposal.



Figure 15 – Key Performance Measures Under Current SRV Proposal

To achieve the asset renewal target of 100% by 2026/27, requires rate increases of 5% pa for the next seven years followed by a 3.4% increase in 2025/26.

This approach has been consistent since 2015 when Council made its Fit for the Future submission and, apart from updating the LTFP and the SRV amount, Council’s position has remained unchanged as reflected by the fact that Council has resolved to proceed with the application. The indicators provided in the following section further demonstrates the impact that the special variation is expected to have on the financial sustainability of the organisation.

3.3 Financial indicators

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

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

3.3.1 Financial Indicators

Council's Long Term Financial plan was updated and adopted by Council on 28 November 2017. Within the plan, a number of the key financial indicators for Council over the 10-year planning period are provided. This is shown as Attachment 4. An addendum showing the unrestricted current ratio and the impact of the 2.3% rate peg has also been provided. This is shown as Attachment 5.

Figure 16 shows the projected impact of the special variation proposed in this application on three key financial indicators: Operating Performance ratio; Asset Renewal ratio; and Asset Maintenance ratio.

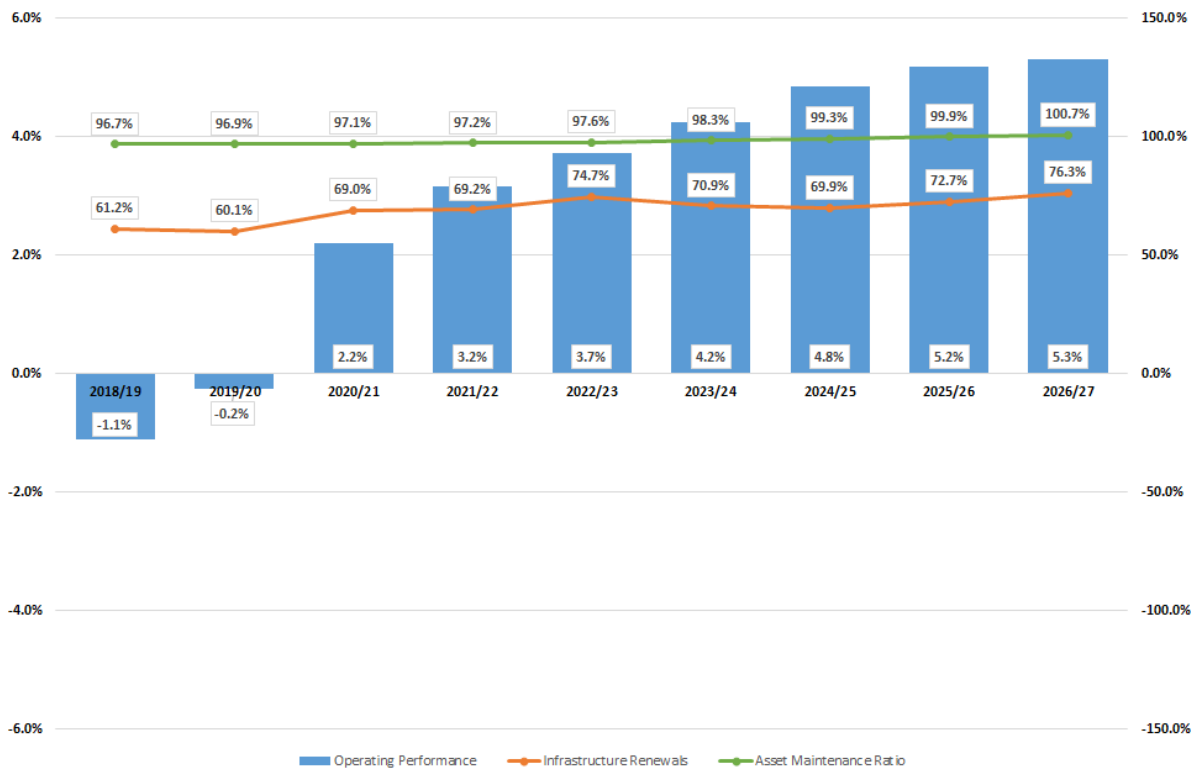


Figure 16 – Key Performance Measures Under Current SRV Proposal

In general, there is improvement across the indicators with the most significant improvement being in the Operating Performance result.

There is improvement in the Building and Infrastructure Asset Renewal result but Council still has more to do to bring this indicator to the target required. To achieve the asset renewal target of 100% by 2026/27 would require rate increases of 5% pa for the next seven years followed by a 3.4% increase in 2025/26.

3.4 Contribution plan costs above the cap

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

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

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

- ▼ a copy of the council's section 94 contributions plan
- ▼ a copy of the Minister for Planning's response to IPART's review and details of how the council has subsequently amended the contributions plan
- ▼ details of any other funding sources that the council is proposing to use, and
- ▼ any reference to the proposed contributions (which were previously to be funded by developers) in the council's planning documents (eg, Long Term Financial Plan and Asset Management Plan AMP).

Not applicable.

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

4 Assessment criterion 2: Community awareness and engagement

Criterion 2 in the Guidelines is:

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category

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

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

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

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

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

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

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

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

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

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

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

4.1 The consultation strategy

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

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

4.1.1 The Consultation Strategy

- ▼ 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

Community engagement in relation to Council's financial sustainability position started in October 2014 when Council first considered the Financial Sustainability Report. There was extensive media coverage at the time and debate in the community. Since that time, Council has continued to work alongside the community and Community Consultative Bodies (CCBs) to

understand the community's priorities and visions via the Community Strategic Planning and Delivery Program process.

At this time, Council's CCBs were provided with a presentation at the CCB Executive meeting and access to the information. This continued when the State Government introduced the Fit for the Future requirements. Council updated its information in line with these requirements and again made this information available to the community. The Fit for the Future submission clearly outlined the need for two x 7.5% above rate peg increases.

During the public consultation process for the proposed forced merger of Shoalhaven City Council and Kiama Council (January- April 2016), Council again outlined its financial position and the Fit for the Future measures. In a number of submissions received, as part of this process, members of the public made it clear that there was a good understanding of the Council's financial strategy and proposal and support for this.

With the election of the new Council (September 2016) and changes in the rate peg and additional costs impacting the financial position of the organisation, the Financial Sustainability report was updated and presented to Council for consideration. That report outlined the recommended rate rises required to meet the Fit for the Future benchmarks and to improve infrastructure. Council resolved to undertake further community engagement and present to the community three rate increase options for their feedback.

Council undertook a significant community engagement process for the previous year's 2017/18 SRV application, submitted to IPART in February 2017. A copy of the outcomes of this engagement process can be found in the Community Engagement Report for 2017/18 (Attachment 6). It was clear from this consultation process that the community were aware and understood the SRV proposal that had been put forward by Council.

This was reinforced through the IPART determination which stated that:

"Council provided evidence the community is aware of the need for, and extent of, the rate rise. It used a variety of strategies to inform the community, although it provided little detail about how the additional revenue would be spent. There were sufficient opportunities for community feedback, and the council considered the community's views" (Page 6, IPART Shoalhaven City Council's application for a special variation for 2017-18)

A full outline of the community engagement methods and approaches undertaken for the 2018/19 application are provided in the Community Engagement Report for 2018-19 (Attachment 8). This report provides an overview of the methods used, examples of documentation and information provided to the community. It also details the strategy employed to ensure the community were aware, understood and were able to provide comments on the SRV proposal and the Integrated Planning and Reporting Documents. The details provided below are a summary of the overall

consultation strategy employed and the ways in which Council meets IPART's criteria in this regard.

Council continued to engage the community on the rate rise topic following submission of the 2017-18 SRV application in February 2017 and receiving the determination in May 2017. In October 2017, Council resolved to continue the path of ensuring financial sustainability and reapply for additional SRVs.

Council's SRV 2017/18 IPART application contained cumulative increases of 35.6%, however, following feedback from the community, Council resolved in January 2017 to reduce the cumulative impact of the previously proposed rate increases to 31.0% over four years (this compares to a cumulative increase of 9.3% over four years, if only the rate peg was applied and no SRV).

Council resolved in October 2017 to seek IPART approval to retain the 13.2% SRV (approved as a one-off increase in 2017/18) as a permanent increase and for the additional special variations:

- 5.0% in 2018/19 (including an estimated rate peg of 2.5%)
- 5.0% in 2019/20 (including an estimated rate peg of 2.5%)
- 5.0% in 2020/21 (including an estimated rate peg of 2.5%)

Following this resolution, Council updated its Integrated Strategic Plan (including the Delivery Program and Operational Plan) to more clearly outline the SRV proposal, and commenced engagement with the community on its updated Integrated Planning Reporting documents and revised SRV proposal. This included providing a specific chapter (Attachment 7) which clearly outlined the SRV proposal to the community.

The engagement clearly outlined that:

- Council had received a temporary SRV increase applicable for 2017/18 only
- This increase was only of a temporary nature and would expire
- The increase had been previously approved to fund infrastructure maintenance and renewal
- The expiring variation would be replaced with a new proposal which resulted from the feedback received as part of the community engagement undertaken for the previous SRV and would include retention of the temporary measure plus an additional variation amount above the rate peg which would form part of the application.
- The community's feedback regarding affordability had been considered and that, as part of the request to obtain a permanent SRV increase, it was proposed that additional increases of 5% would be phased over future years.
- There was a significant need for the increase

- The impact on rates if the SRV was not made permanent (i.e. they would fall)
- A rate calculator was provided on Council's website to enable ratepayers to assess the direct impact of the proposed increases on their rates and for them to be able to understand the individual impact that this would have based on their situations.

Documentary evidence of how this was provided to the community is included within the Community Engagement Report SRV 2018-19 (Attachment 8).

Community engagement was undertaken on the revised Special Rate Variation proposal and updated IP&R documents from 26 October to 23 November 2017.

The purpose of the community engagement program was to:

- Inform community members of the revised SRV proposal
- Inform community members of the amendments to Councils IP&R documentation (resulting from the SRV proposal)
- To seek community feedback on the revised SRV proposal, and
- To seek community feedback on the updated IP&R documentation.

It was important that a variety of methods were employed and that the strategy enabled the key messages to reach our community. Given that the community was well informed of the original rates proposal (with IPART receiving a significant number of submissions), it was important to provide information which shows what the change in this proposal was and why a new application needed to be made.

4.1.2 Community Engagement Methods

Community Engagement for the SRV 2018-19 has been extensive and used a variety of communication methods to inform the community of the revised proposal and updated IP&R documents and to encourage the community to provide feedback. This included (but was not limited to):

- Webpage on Council's community engagement platform - this page contained factsheets, information about the proposal, graphs and tables showing impacts, community presentations, Councils IP&R documents (which were exhibited with the proposal) and other information and opportunities to make submissions or submit questions
- Hardcopy Information Packs - these contained a range of resources, including key information provided in a colour brochure, a four-page factsheet and a series of Frequently Asked Questions (FAQs)
- Document exhibition (at Council sites throughout the LGA) - contained Councils IPR documents, factsheets and other information

- Three public meetings - A presentation was given to ratepayers about the proposal, impacts, alternatives and where the money would be spent
- Media campaign - a range of messages were provided to the community through media releases, media articles and interview opportunities
- Social media campaign - this sought to inform the community of the proposal and encourage them to seek information on our website or via phone calls to Council
- Television advertising - was played on a popular local station and encouraged the community to seek further information directly from Council on our website
- Electronic direct mail (EDMs)- a number of articles were included in Council's e-newsletter which is sent to over 2,000 ratepayers on a weekly basis
- Inclusion in Rates Newsletter and sent via post to all ratepayers - Covered all of our ratepayers to ensure that they received information about the proposal directly in their mail box. This directed the community to seek further information from our website or via a phone call to Council
- Community Consultative Bodies, Business Chambers and other community groups notification and activation
- Council foyer posters and television display
- Advertisement on the front page of Council's website (slider and news articles)
- Rates Calculator

Full details of each method and outcomes are provided in the attached Community Engagement Report SRV 2018-19 (Attachment 8).

4.1.5 IP&R Documentation and Consultation

An integral part of the consultation strategy and process was the exhibition and explanation of the changes that had been made to Council's Integrated Planning and Reporting documentation to reflect the SRV proposal.

Council had undertaken a review of the CSP, DPOP and Resourcing Strategy in April and May 2017. This involved extensive community consultation on the Priorities, Goals and Actions that would be contained in the ISP for the next four years. Included as part of this discussion with the community was the message that an SRV application had been submitted to IPART and there was a need for ongoing improvements to the Council financial position.

Following Council's adoption of the temporary SRV was the further determination of an intent to submit an application for 2018/19 to seek to make this SRV permanent and seek additional increases. All the IP&R documentation that had been adopted by Council in June 2017 was revisited and amended to reflect the new SRV proposal. An additional chapter was

added to the ISP document titled Chapter 7 Special Rate Variation. This chapter outlined the SRV proposal and the financial impact that this would have on the organisation. A copy of Chapter 7 is provided as Attachment 7.

The consultation on the SRV that was undertaken for this application included details of the proposal and also details of the changes that were made to the IP&R documentation. The IP&R documentation was provided as part of each report to Council relating to the SRV application for 2018/19 and was also clearly detailed on the community engagement webpage for the SRV.

References to the SRV and the financial position of Council were also included throughout the ISP document including within the LTFP (Attachment 4), **CSP chapter 1** and **Resourcing Strategy chapter 6**.

A summary of evidence found within Council's IPR documents relating to the IPART criteria and assessment questions are provided as Attachment 9.

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.

4.2.1 Outcomes of Feedback from Community Engagement

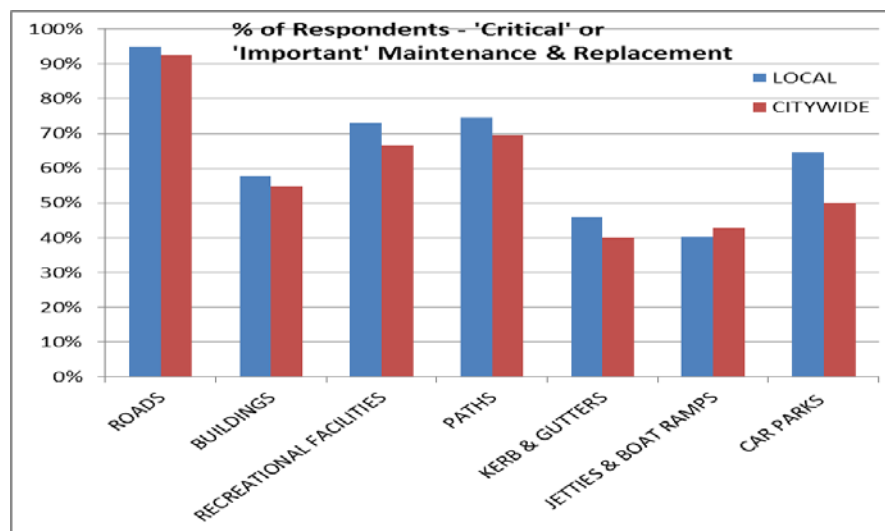
Council has undertaken significant engagement with our community about financial sustainability, the need for increased rates, service provision and infrastructure needs. This engagement commenced in 2012 and has been an ongoing conversation with the community since that time. As a result, Council has received significant feedback from the community about our performance, their expectations, willingness to pay and their support or opposition to rates increases. This is explained in the background provided in sections 4 and 5 as well as both Community Engagement Reports (Attachments 6 and 8).

Community Infrastructure Survey

Feedback in 2012/13 from the Community Infrastructure Survey provided the following information for the consideration of Council.

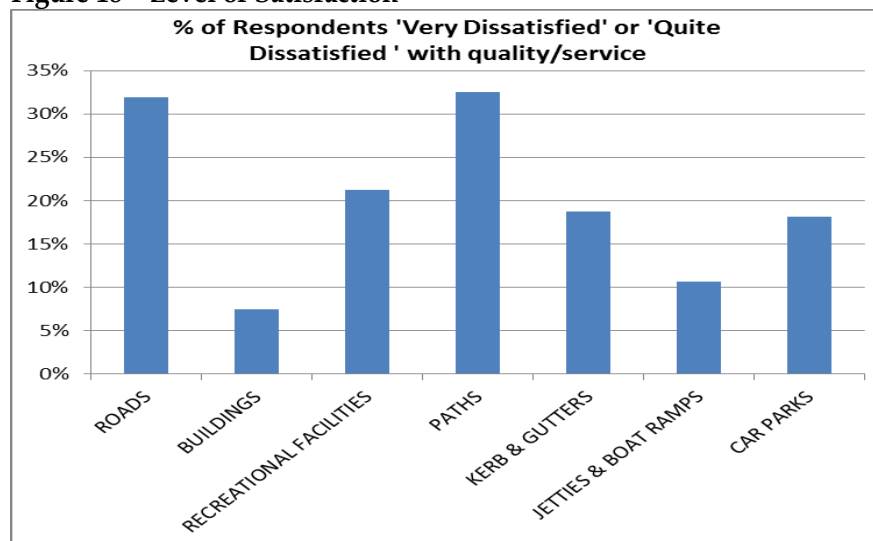
Figure 17 highlights the very high percentage of respondents that saw maintenance and renewal of various asset categories as critical or important both locally and citywide.

Figure 17 - Responses to Critical and Importance of Maintenance and Replacement



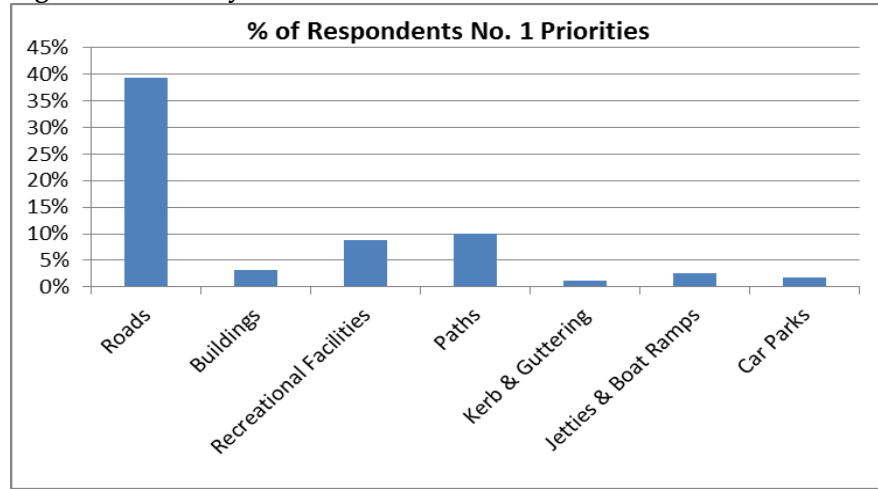
The following graph (Figure 18) shows the high levels of dissatisfaction with the current levels of service being provided across these asset categories.

Figure 18 - Level of Satisfaction



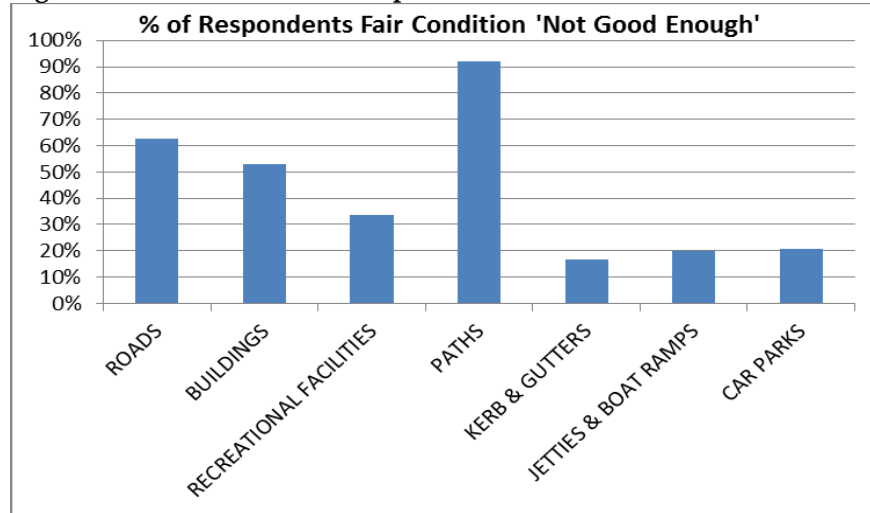
In relation to the community's expressed priority area the results were very clear as indicated below in Figure 19.

Figure 19 - Priority Areas



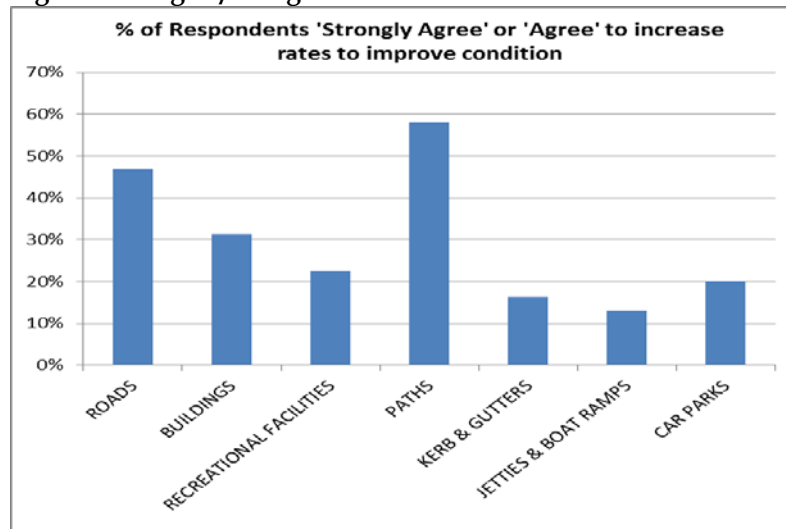
Survey respondents were also asked if a 'fair condition' was acceptable. The graph below (Figure 20) provides the results of these questions. It is very clear that the respondents did not think that a 'fair condition' was acceptable in a number of the asset categories.

Figure 20 - Fair Condition Acceptable?



When asked "Do you agree that Council should increase rates to improve the quality and/or condition from 'fair' to 'good'" of the various infrastructure types, the respondents were supportive in some areas such as paths and roads.

Figure 21 – Agree/Disagree to Increase Rates



Community Survey- 2017

In 2017 Council undertook a community survey of a random demographically representative sample of community members. This was conducted to determine the community's perception of rates increases, support for rates increases and questions related to Council's financial sustainability. The results of the survey include:

- *Perception of Council's financial position:* Results showed that respondents did not agree that Council's financial situation was particularly negative. The average score (4.9 out of 10) showed that the respondents mainly had a neutral perception towards Council's financial situation
- *Support for the rates proposal:* Two in five residents (40%) indicated that they were not at all supportive of paying higher rates. 16% of respondents had neutral support for paying higher rates. Average respondent support was 3.0 out of 10.

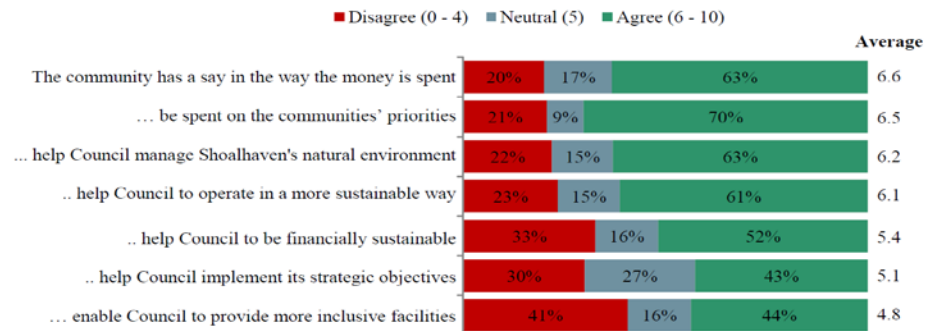
The results showed that 62% of respondents do not support the idea of having to pay higher rates. This result is the same among rate-payers. Non-rate payers seem to be less supportive, however the significance tests show that the differences are not statistically significant.

- *Motivations to pay higher rates, usage fees and charges:* The results showed that some residents would consider paying higher rates, usage fees and charges, if the community has a say in the way the money is spent. Some residents also advised that they would consider paying higher rates, if the extra money is spent on the community priorities, management of Shoalhaven's natural environment and the operations of Council in a more sustainable way.

The Council’s financial sustainability, implementation of strategic objectives and provision of inclusive facilities were not stated as strong motivators. Some respondents agreed that they would be willing to pay higher rates, usage fees and charges, if it makes Shoalhaven City a more liveable and attractive place, more prosperous and inviting.

Figure 22 – Willingness to Pay Higher Rates

I am willing to pay higher rates, usage fees and charges if it is going to



Respondents recommended that to create an overall motivation for paying higher rates among residents, Council should create opportunities for community to be involved in decision-making processes. Council should clearly show that it understands the community’s priorities correctly and build strategies to make the money is spent effectively to meet their priorities.

To create support for having to pay higher rates, Council should communicate its management methods more effectively. Residents should be aware how the higher rates would provide Council with opportunities to build more inclusive community facilities.

Council should ensure that the residents are aware that the higher rates generate financial sustainability for the Council and opportunities for management to implement its strategic objectives. In both cases, some residents are motivated to pay higher rates and support having to pay higher rates if the money is used to improve Shoalhaven City’s future prospects.

- Spending of additional funds: According to respondents, the extra income that is generated from the increased rates should be spent on roads (58%). The significance tests showed that the roads are clearly the main priority for the Council’s future investments for all subgroups of the sample.

Table 10 – Areas for SRV Funds to be Directed

Roads	58%
Facilities management	26%
Maintaining a balanced budget	12%
Maintaining a deficit	3%
Asset renewal	9%

- **Services to be reduced:** Respondents did not clearly identify particular services or facilities to be reduced to help to maintain the rates, fees, and charges at their current level. Some respondents suggest some unused services and facilities be closed, namely entertainment, art, information centres and take away facilities in Nowra and Milton. Respondents suggest roads cleaning and street sweeping could be reduced to help keep fees at their current level.

Numbers of parks and reserves can be reduced by closing some located in isolated irrelevant areas. Similarly, some respondents suggest reducing the number of waste collection bins.

A reduction in wages paid to Councillors and Councillors expenses, including water bottles/food at council meetings as well as staff salaries was also suggested.

Respondents listed some unused services and facilities such as roundabout at south Nowra, new plan for Bomaderry sporting complex, misting bubblers in the Nowra CBD and library services. Some respondents suggested community events could be reduced to keep the rates at their current level.

There were some comments made about the contractors who currently work for the Council while some suggested that having contractors is more efficient. Respondents stated that if the tip fees are eliminated council could save money for cleaning illegal dumping. Finally, it was suggested that the red tape and some internal Council expenses could be reduced.

Council is continually evaluating its services and looking at ways to reduce expenditure and long-term liabilities. Some of these suggestions may be viable while others may not be acceptable to the majority of the community. These suggestions will be considered in an ongoing process and will involve the necessary community consultation.

- **Recommended ways to raise revenue:** When the respondents were asked to recommend ways for the Council to raise revenue, the most common recommendations were related to better management methods. Residents understand that the rates, fees and charges are the main sources of Council's income, thus they recommend rate increases

as a way of raising revenue. Residents mentioned that Council should apply for funding from the State and Commonwealth governments as a way of raising revenue.

Residents suggested that user pays for the services and facilities could be a source for additional revenue. Residents suggested that users might start to pay or pay more for the services and facilities they use such as, library computers, development applications, and boat ramps. Similarly, parking fees and fines are suggested as a potential source for revenue raise. Residents suggest user pays for car parking in the CBD or in caravan parks is another way of raising revenue.

Residents recommend conducting events and activities for the council to raise revenue. They suggested that more community events, festivals, fairs, concerts, and annual shows would not only raise funds for the Council but also bring the Shoalhaven community together.

Tourism was suggested as a way to raise income. Visitors could have 'user pays' for the existing tourist attractions and also for the activities that are held by the Council. Furthermore, if tourism is improved, the facilities that are mainly used by tourists would generate more revenue.

Residents suggested that the Council management should work more efficiently and be more productive. They recommended that Council review their investment strategy. They claimed that cutting some internal expense would be helpful to reduce expenditure. They also suggested a reduction in the number of staff.

A number of these suggestions are already being explored. Some are not necessarily revenue raisers but may, in fact, increase costs. These suggestions will be considered in an ongoing review process and will involve the necessary community consultation.

A copy of the survey results can be found in Attachment 6.

Submissions and Community Feedback

A comprehensive explanation of the feedback received from the community in relation to this SRV proposal have been included within **Attachment 6 – Community Engagement Report 2017/18**.

The outcomes of the community consultation indicates that the proposed rate increase was generally not supported; however, there are some members of the community who would pay higher rates to maintain services. The feedback is also clear that, if a SRV is determined, the community does want to have a say in how the funds raised from a Special Rate Variation are allocated. A key theme in the submissions and engagement was the impact of rates on low income earners and pensioners.

Council acknowledges that any rate increase may be difficult for some community members.

Verons Estate

There has also been an extensive consultation process in relation to Verons Estate. The details of this are contained in the Verons information attachment (**Attachment 3**).

5 Assessment criterion 3: Impact on ratepayers

Criterion 3 in the Guidelines is:

The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Program and Long Term Financial Plan should:

- *clearly show the impact of any rises upon the community*
- *include the council's consideration of the community's capacity and willingness to pay rates, and*
- *establish that the proposed rate increases are affordable having regard to the community's capacity to pay.*

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

5.1 Impact on rates

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

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

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

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

Impact on Rates

Council recognises that any increase in costs including increases in rates will have a negative impact on some members of the local community. Council has taken very seriously its responsibility in trying to balance the needs of individual's financial circumstances with the greater issues facing the entire community. The increase being requested tries to find the right balance while addressing the long term and intergenerational issues for which Council is responsible.

The rating structure with the proposed special variation compared to the expected yield assuming rate peg increases in 2017/18 and 2018/19 (1.5% and 2.3%) is outlined in Table 11. There are no plans to change the rating structure. The SRV will be applied equally across all rating categories.

Table 11 – Rating Structure

2018/19 Rating Structure - Comparison of proposed special variation to rate peg only

Sub-Category	Number of assessments	Rateable value	Average Land Value	Proposed special variation				Rate peg only	
				Ad Valorem	Base	Notional Yield	Average Rates Calculated	Notional Yield	Average Rates Calculated
Ordinary Residential Rates	53,101	\$14,229,320,310	\$267,967	0.2278	\$610	\$64,803,180	\$1,220	\$56,611,188	\$1,066
Residential Non Urban Rates	1,024	\$27,076,310	\$26,442	0.2279	\$46	\$108,822	\$106	\$95,065	\$93
Ordinary Farmland Rates	778	\$727,780,700	\$935,451	0.1981	\$610	\$1,916,314	\$2,463	\$1,674,066	\$2,152
Farmland - Dairy Farmers Rates	126	\$160,743,000	\$1,275,738	0.1008	\$610	\$238,905	\$1,896	\$208,704	\$1,656
Ordinary Business Rates	170	\$2,271,090	\$13,359	0.3319	\$0	\$7,538	\$44	\$6,585	\$39
Business Nowra Rates	1,712	\$767,887,478	\$448,532	0.3201	\$610	\$3,502,481	\$2,046	\$3,059,721	\$1,787
Business Commercial / Industrial Rates	363	\$168,843,000	\$465,132	0.6990	\$610	\$1,401,626	\$3,861	\$1,224,441	\$3,373
Sussex Area Special Rates	99	\$43,237,448	\$436,742	0.0341	\$0	\$14,740	\$149	\$12,876	\$130
	57,373	\$16,127,159,336	\$281,093			\$71,993,605	\$1,255	\$62,892,647	\$1,096

5.1.1 Minimum Rates

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

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

Does the council have minimum Ordinary rates? Yes No

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

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

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

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

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

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.

5.2.1 Capacity to pay

One of the issues for Council to consider is the ability of the local community to pay for the proposed rate increases. A number of graphs are provided below that highlight the various areas that could be considered in this matter such as income, rates paid, Council area, etc.

Figure 23 is the Socio-economic Index rating. This shows that the Shoalhaven has the lowest rating of the group with Coffs Harbour, Tweed and Port Macquarie within 13 points of the Shoalhaven.

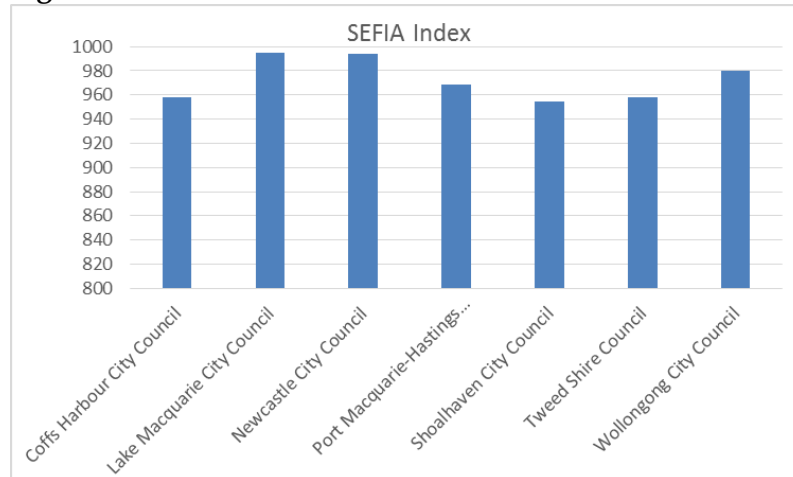
Figure 23 - Socio-economic Index rating



Source-, NSW 2014/15 Local Government Comparative Data

The SEFIA index below has SCC rated the lowest with 954.6. Coffs Harbour and Tweed rated 958.4 and 958.5 and Port Macquarie 968.9. All three of these areas have higher rates than SCC.

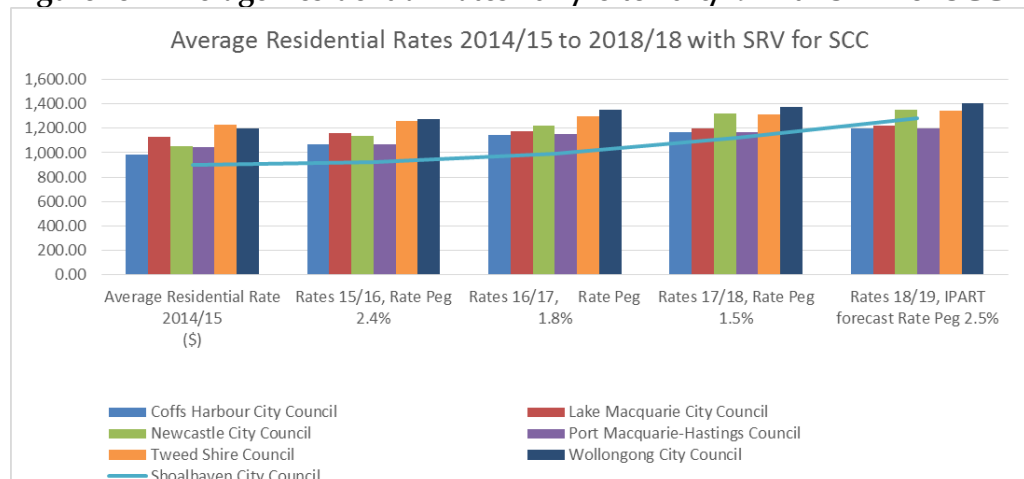
Figure 24 - SEFIA Index



Source-, NSW 2014/15 Local Government Comparative Data

Figure 25 below includes the proposed SRV for SCC and this demonstrates that even with the SRV, Council is still only in the middle of the group in terms of average residential rates.

Figure 25 - Average Residential Rates 2014/15 to 2018/19 with SRV for SCC



Source-, NSW 2014/15 Local Government Comparative Data and IPART determinations

Figure 26 below presents information on the average weekly taxable income compared to the Average Residential rate for Councils in the SCC Group. This graph shows, for the purpose of comparison, that the gap between one week's taxable income (bar) and the average residential rate (line) is the second smallest of the comparative Councils. This would imply that relative to other areas with similar levels of taxable income such as Tweed, Port Macquarie or Coffs Harbour, there is some capacity to increase rates.

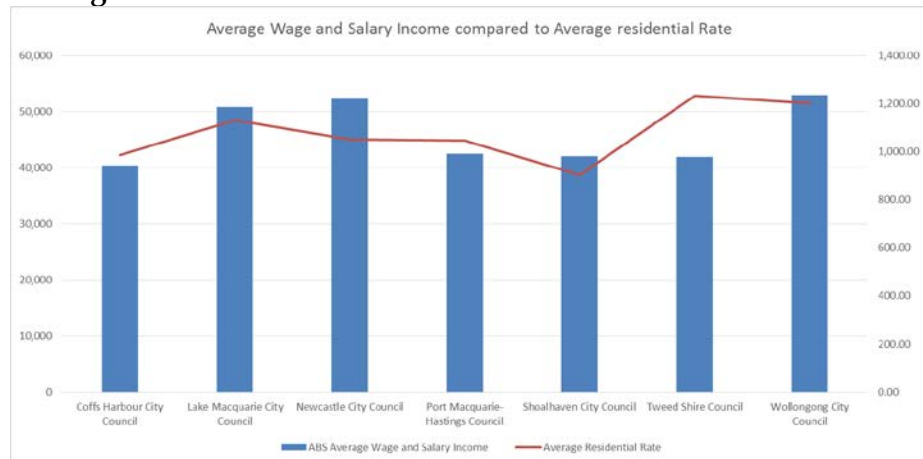
Figure 26 - Average Weekly Income to Average Residential rate



Source NSW 2014/15 Local Government Comparative Data

Figure 27 below shows the comparison of average annual wage and salary income (bar) for Group 5 Councils compared to the average residential rate (line). The figure highlights that the SCC average wage and salary earner in the Shoalhaven is paying a slightly smaller proportion of their income in residential rates than other centres with higher rates such as Coffs Harbour, Port Macquarie and the Tweed.

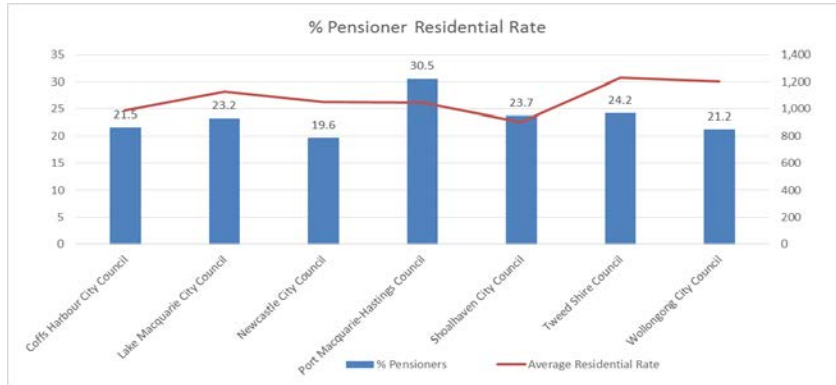
Figure 27 - Average Annual Wage and Salary Income Compared to the Average Residential Rate



Source - ABS Wage and Salary Earner Statistics for Small Areas, Time Series, 2005-06 to 2010-11 and NSW 2014/15 Local Government Comparative Data

Shoalhaven City Council has the third highest percentage of pensioners at 23.7% paying rates after Port Macquarie (30%) and Tweed (24%), however, both Port Macquarie and Tweed have higher rates than Shoalhaven (see line), with the Tweed being 36% higher than the Shoalhaven's. (Figure 28 below.)

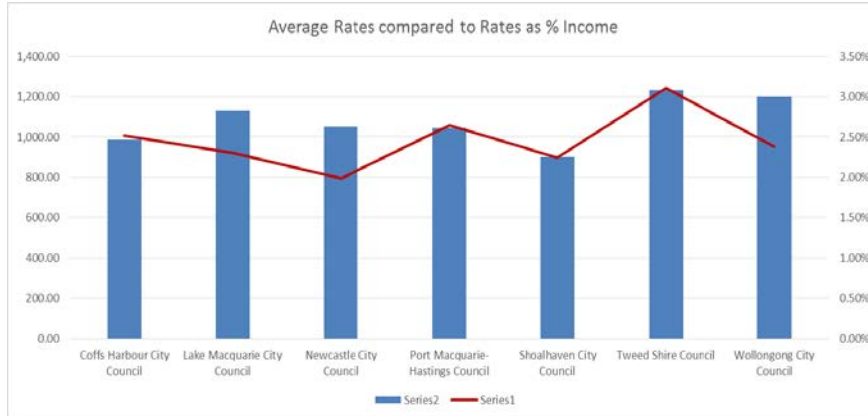
Figure 28 - Average Residential Rates Compared to % Pensioners Residential rates



Source - NSW 2014/15 Local Government Comparative Data

Figure 29 shows a comparison of average rates to the rates as a % of taxable income. This shows the percentage for Shoalhaven at 2.24% of taxable income, the second lowest in the group

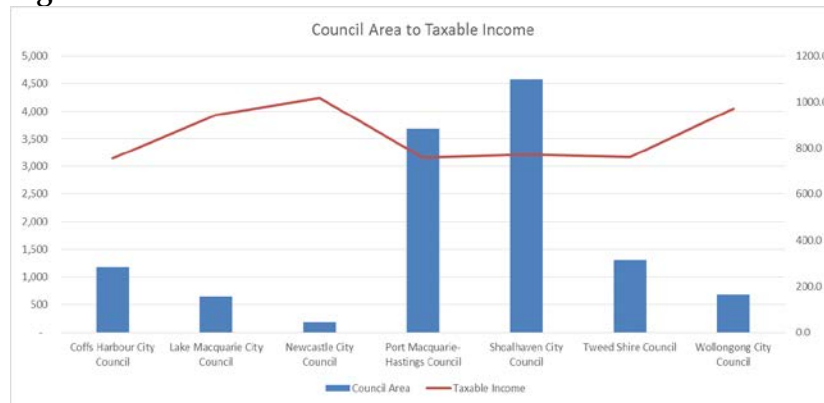
Figure 29 Council Area to Taxable Income



Source NSW 2014/15 Local Government Comparative Data

Further analysis was carried out on comparatives of Area of Council, income levels within Council and the rates being charged. Figure 30 below shows the relationship for area size and taxable income, which shows the bigger the council area the lower average taxable income.

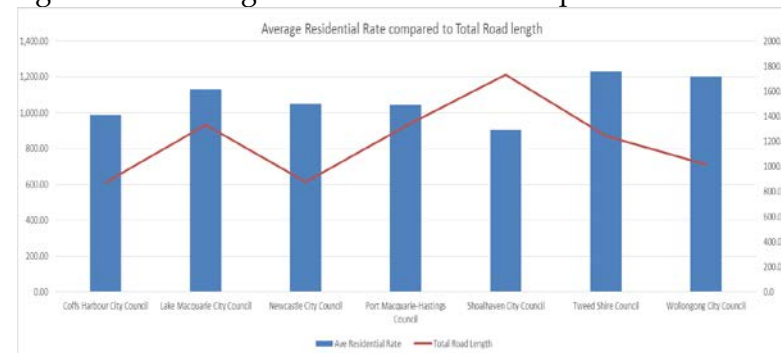
Figure 30 – Council Area to Taxable Income



Source NSW 2014/15 Local Government Comparative Data

Figure 31 below highlights the difference between the Councils in relation to average rates compared to the total length of road that each Council has to maintain. This graph highlights the significant difference between the majority of the Councils and SCC.

Figure 31 – Average Residential Rate Compared to Total Road Length



Source NSW 2014/15 Local Government Comparative Data

Figure 32 below provides the level of outstanding rates for the past three years. This is on a slightly decreasing trend and would indicate that Council currently has not seen an increase in the number of ratepayers unable to pay their rates.

Figure 33 provides the number of ratepayers who are accessing the Hardship Policy. This is very low and would indicate that very few people are experiencing hardship to the point where they need to access this assistance from Council.

Figure 32 - Percentage Total Rates Outstanding

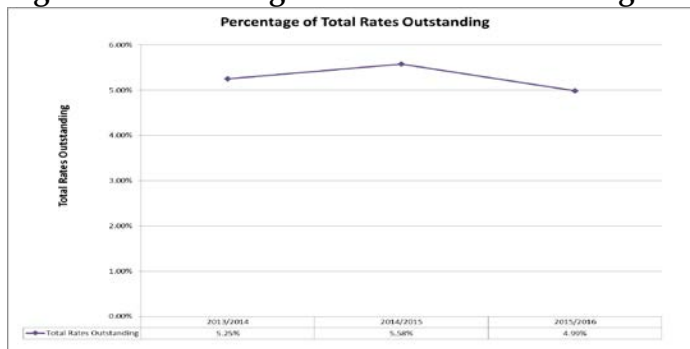


Figure 33 - Number of Rate Payers Accessing the Hardship Policy

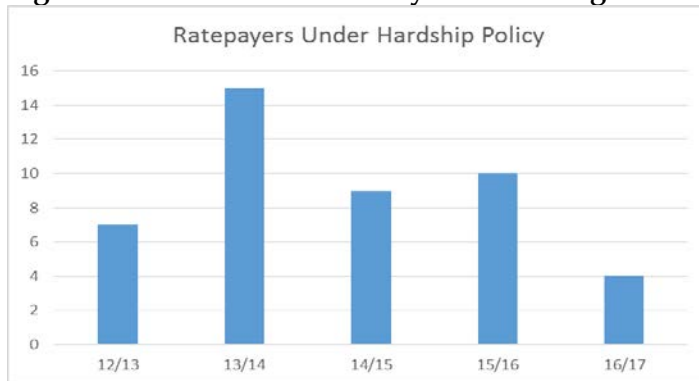


Figure 34 below has the unemployment figures for the Group 5 Councils from June 2015 to Sept 2016. Shoalhaven does have the highest unemployment rate of the comparison Councils. This is an indication that Council does need to carefully consider the area’s capacity to pay for any rate increase.

Figure 34 - Unemployment Figures for the Group 5 Councils from June 2015 to Sept 2016

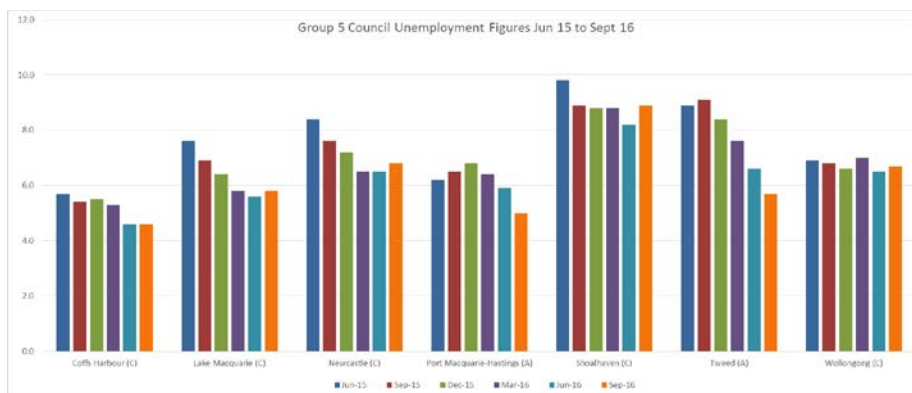


Figure 35 below has the percentage of pensioners who are paying rates across the Group 5 Councils. The Shoalhaven has 23.7%. The highest is Port

Macquarie with over 30%. The average across the group is 23.4% which sees the Shoalhaven just above the average.

Figure 35 - % Pensioners paying residential rates for the Group 5 Councils



Source NSW 2014/15 Local Government Comparative Data

The information above would indicate that there is a large proportion of pensioners in other areas where higher rates apply. If this is considered, there appears to be an ability to increase rates in the Shoalhaven while acknowledging it may be difficult for some community members.

When all this information is combined, there appears to be an ability for the community to pay the increase in rates being proposed.

While there needs to be continued discussion in relation to the ability of residents to pay the rate increase, there also needs to be an awareness and discussion of the consequences of delaying a rate increase and deferring infrastructure renewals. The facts set out in this submission, the Financial Sustainability Document, the Council Fit for the Future Submission and various other internal and external reports all indicate that Council needs to target a reduction in services or increase rates above the rate peg.

If a rates increase is delayed and significant reduction in service costs are not delivered, then the community will be impacted by poor condition assets and more assets deteriorating at a faster rate due to a lack of funds for the necessary maintenance and renewal works. This is a risk across Local Governments in Australia and was highlighted in the National State of the assets report in 2015 for Roads and Community Infrastructure.

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 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).

As part of its advocacy for and on behalf of its communities, Council's Integrated Strategic Plan includes Action 4.2.07.6: "Sustain support for ratepayers suffering hardship". This action clearly acknowledges Council's ongoing commitment to supporting ratepayers who may be over burdened by increases in rates and charges.

The Action is operationalised in Council's public policy, POL16/200 Revenue Hardship Policy (attached). The Policy was updated in 2017 and provides relief in a number of ways:

1. Writing off accrued interest on overdue rates and charges under Section 567 of the Local Government Act 1993
2. Waiving, reducing or deferring the payment of the whole or part of a rate increase due to valuation changes under Section 601 of the Local Government Act 1993

Council's Procedure for Hardship Determination ([PRD15/153](#)) includes provision for those experiencing financial hardship to be referred to support agencies for assistance and for the consideration and implementation of payment plans by Council, where appropriate. Council's Hardship Policy is provided as Attachment 10.

This is included within Councils IP&R documentation- extract shown in Attachment 9.

5.3	Addressing hardship	Action: 4.2.07.6 Sustain support for ratepayers suffering hardship	ISP, Chapter 2: DPOP – p.20	http://doc.shoalhaven.nsw.gov.au/Displaydoc.aspx?Record=d17/199749
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6 Assessment criterion 4: Public exhibition of relevant IP&R documents

Criterion 4 in the Guidelines is:

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

Briefly outline the significant IP&R processes the council has undertaken to reach the decision to apply for a special variation. Include the details of and dates for key document revisions, public exhibition period(s) and the date(s) that the council adopted the relevant IP&R documents.³

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

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

IP& R Process

A number of amendments were made to the IP&R documentation to clearly articulate to the community the 2018/19 SRV proposal; this included the addition of a Chapter 7 to the Integrated Strategic Plan titled Special Rate Variation. This chapter forms part of the ISP document which also contains the CSP, DPOP and resourcing strategy. Chapter 7 contains the following information:

<i>Contents</i>	2
<i>Meeting our future needs – Proposed Special Rate Variation</i>	3
<i>Proposed special rate variation – Impact on rate payers</i>	3
<i>Special rate variation expenditure</i>	6
<i>Revenue Policy under proposed Special Rate Variation</i>	8
<i>Estimated Income and Expenditure 2018/19</i>	8

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

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

<i>Rating Structure - ordinary rates and special rates</i>	9
<i>Ordinary rates</i>	9
<i>Special Rate Variations</i>	10
<i>Council Special Rates</i>	11
<i>Special Category Rates – Sussex Inlet CBD Promotion</i>	11
<i>Resolving Small Lot Rural Subdivisions (Paper Subdivisions)</i>	11
<i>Proposed Borrowings</i>	12
<i>Revised Budget & Capital Works under proposed Special Rate Variation</i>	13
<i>Net Cost of Programs</i>	18
<i>Capital Program</i>	19
<i>Long Term Financial Plan</i>	26
<i>Capital Works Program</i>	40
<i>Sensitivity Analysis</i>	41
<i>Long Term Financial Plan Results</i>	42

(Integrated Strategic Plan 2017, Chapter 7: Special Rate Variation)

The process for ensuring the amendments were outlined and explained to the community is as follows.

Council Action	Council Report, Resolution	<u>Link to document</u>	Date
Council report - Pathways to financial sustainability and attachment 1 and 2	Council report (CL 17.272)	http://shoalhaven.infocouncil.biz/Open/2017/09/CL_20170926_AGN_3712_AT_SUP_WEB.htm	26-Sep 2017

CL17.272 Pathways to financial sustainability

HPERM Ref: D17/308897

Group: Finance Corporate & Community Services Group
Section: Finance

Attachments: 1. Budget cut and revenue options
2. New capital works
3. Councillor Presentation: Resources Issues (under separate cover)

Purpose / Summary

To review and determine Council's financial sustainability strategy (FSS) in light of the IPART decision to only part approve Council's SRV application.

Council's FSS must meet the OLG FFTF benchmarks.

~~Do not delete this line~~

Recommendation

That Council adopt Option 1 which will retain existing services, allow modest "new" asset spend, move towards meeting all FFTF benchmarks and stage the further rate increase required over the next three years.

~~Do not delete this line~~

Options

1. That Council prepare a revised DP/OP to reflect the proposed SRV application, under S508A of the Local Government Act 1993, to retain the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21. **(This is the recommended option)**

Implications: Council will have the capacity to adequately maintain, renew and replace Council assets and meet community service expectations. While the application to IPART is for a multi-year special variation, Council ~~is able to~~ adopt lesser rate increases each year according to prevailing conditions. Council acknowledges there will be an impact on ratepayers and will continue to assist members of the community who experience hardship. Staff will need to revise the Delivery Program, Operational Plan and Long Term Financial Plan in line with the adopted recommendations and report back to an extraordinary meeting of council for endorsement prior to public exhibition.

2. Council chooses cost-cutting (service reductions) and/or revenue raising options from the lists attached to this report together with a lesser SRV (if needed) ~~in order to~~ achieve Council's performance benchmarks

Implications: Each \$600K improvement to Council's Operating result is roughly equivalent to a 1% rate increase. Council will need to consider a target for significant service level adjustments (not related to infrastructure maintenance or renewal) to maintain a pathway to financial sustainability. Reducing service levels, in consultation with the community, can manage part of the funding gap; however, it is likely that Council will continue to operate with an annual deficit without some form of SRV.

3. Council adopts SRV levels that will allow it to meet the asset renewal target of 100% by 2026/27 – this requires rate increases to lock in the current 13.2% increase plus addition of 5% p.a. for the next seven years followed by a 3.4% increase in 2025/26.

Implications: This is the optimum level for asset management but is likely to attract substantial public objection because of the higher rate increase required.

4. Council does not adopt the recommendation ("do nothing")

Implications: This would be a financially irresponsible pathway. Council will not meet its operating performance ratio target over the planning horizon and there will be a deterioration in the asset renewal ratio. The average cash deficit over the period amounts to \$2.8M pa. which will quickly deplete council cash reserves. The Operating Deficit starts at \$9.2M in 2018/19 and reduces over time to an average of \$3.8M over the planned period. Any decision that does not meet the Fit for the Future targets increases the risk of some form of Ministerial direction and discussions would need to be held with the Office of Local Government to understand the implications.

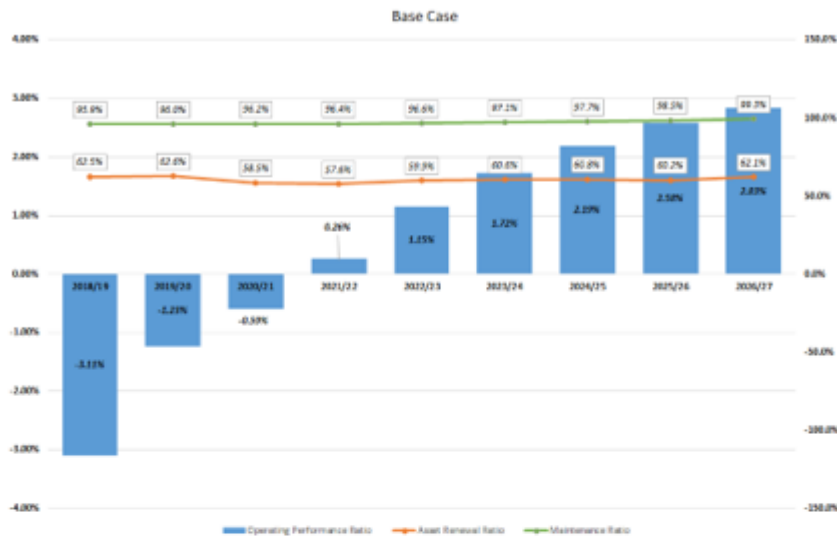
Background

In February 2017, Council applied to IPART for 13.2% and 14% general rates income increases for 2017/18 and 2018/19, including known and projected rate pegs, to fund new infrastructure investment, reduce infrastructure backlog and improve financial sustainability. Of the 2017/18 proposed increase, 0.2% was to enable Council to take out a loan of \$2M for development of road infrastructure for Verons Estate. IPART approved a one-year temporary increase of 13.2% for 2017/18 in May 2017. The one year approval was given as IPART determined Council had not updated and advertised its Integrated Planning & Reporting documents for its special variation proposal. In its determination, IPART commented "Overall, we consider on balance the community was adequately consulted, despite the IP&R documentation not discussing the full extent of the rate rise."

As part of the Councillor Budget Workshop held on 31 August 2017, a number of cost cutting and revenue raising initiatives were discussed. This report provides:

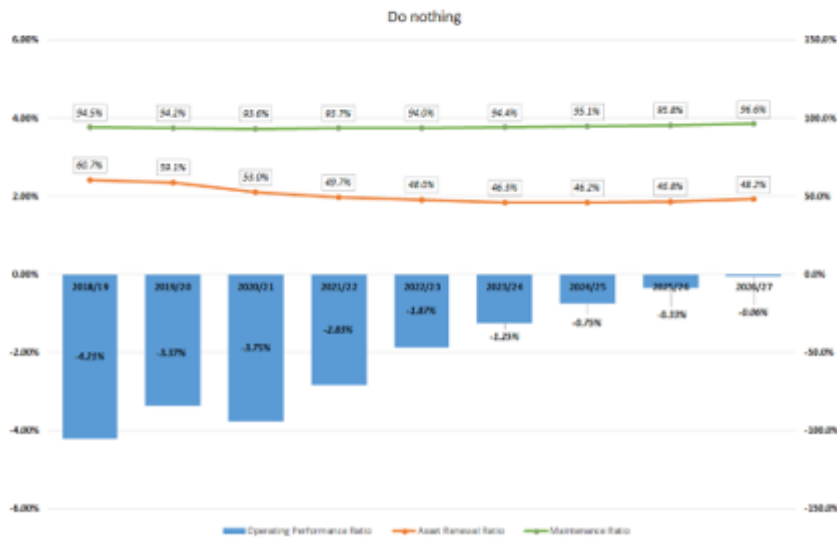
- a number of cost cutting and revenue options for consideration
- further details about one of the Long Term Financial Plan scenarios presented at the Workshop to allow Council to adopt a position on its revenue roadmap over the planning horizon.

However, it is up to Council to determine its funding priorities. At the Councillor Budget Workshop, options were discussed to reduce costs by adjusting service delivery and increase revenue through additional fees and charges. If adopted, the impact of these changes was estimated to be \$800,000 pa, leaving a funding gap of, approximately, \$11.2M pa, once expected increases to electricity charges and operational costs associated with the Shoalhaven Indoor Sports Centre are factored into Council's Base Case scenario from 2019. While continuation of the 2017/18 special variation as a permanent increase reduces the funding gap to \$4.1M pa, it does not allow Council to adequately address asset renewal requirements over the 10 year planning horizon - as can be seen in the following chart:



The operating performance ratio exceeds the target of 0% by 2021/22, a year later than required under Fit for the Future. The asset maintenance target is 100% and Council moves toward this target over the planning horizon. An average of \$15.5M pa over the planning horizon is needed to bring the Building and Infrastructure Asset Renewal Ratio up to the benchmark level of 100%, all other things being equal.

The Base Case contrasts strongly with a scenario where the 13.2% increase is not retained as a permanent increase to Council's rate base:



In this case, Council will not meet its operating performance ratio target over the planning horizon and there is a deterioration in the asset renewal ratio.

While this report recommends applying for further special variation increases over the next three years, a list of cost-cutting measures and other revenue raising initiatives is presented in this report for Council's consideration.

Cost Reduction and Revenue Increase Actions

There are several actions that would reduce the reliance on a SRV.

1. Operational service reductions and revenue opportunities: These are identified at Attachment 1. Option 2 (in Options) requests Council to consider cuts to operational budgets and increases in revenue to reduce the need for rate rises. Council could identify a number of cost reductions and revenue increases from this attachment, however there are some serious outcomes that would arise, particularly relating to reduced services, increased complaints and delays. Each \$800,000 identified will decrease the need for a rate rise by approximately 1% and improve the Operating Performance Ratio.

However, benchmarking from the LG Professionals and PwC report, 'Local government operational and management effectiveness report', Office of Local Government comparative data and a range of internal indicators, indicate that:

- a. Total administration costs as a percentage of operating costs; and
- b. Staffing levels in corporate services (finance, customer services, IT & HR) and DA assessment

are already below industry levels, i.e., staff levels should actually increase in some areas to meet workloads and community expectations (see section on Resourcing Issues below).

Further reductions would lead to staff dissatisfaction and increased turnover, adding costs for recruitments, reduced productivity and increased absenteeism.

2. Reduce capital expenditure by removing new, unfunded asset works, including any budgets to produce masterplans, complete detailed design works and the like. A list of such works is in Attachment 2 and savings (cuts) up to \$750K may be possible. Again, there are serious implications and community expectations will not be met. By reducing CAPEX for "new works", such as new community pathways etc., it will free up funds for renewal and maintenance works or simply improve the cash deficit position.
3. Target further operational productivity improvements. The LTFP includes a salary savings target of \$233,900 in the 2017/18 budget and this is escalated over the forward years in line with projected award increases. The salary savings target could be increased to, say, \$500,000. To achieve this target requires a deliberate delay in replacing/recruitments when a vacancy occurs. This results in a loss of capacity to undertake works, more pressure on other staff members and potential for service complaints. In addition, savings in non-salary items (materials and contracts and other expenses) expenditures are budgeted at the rate peg and below CPI. For the 2016/17 budget, this was quantified at \$1.8M in savings. Substantial "productivity" savings were also factored into the 2014/15 and 2015/16 budgets as part of the Transformation Program and further reductions will have a real impact on operations.
4. Procurement savings. Continue to budget for savings from procurement. The estimated savings for 2017/18 is \$60K.

There are diminishing returns from tendering activities as fewer existing contracts are available to be market tested or negotiated as part of the Illawarra Shoalhaven Joint Organisation (ISJO), together with Council's existing use of large panel arrangements.

Favourable price reductions may not be achieved due to changes in exchange rate, utility costs, interest rate rises, etc.

5. Reduce fees paid to Councillors. Council currently pays the maximum fees allowable for the Regional Rural category (\$19,310 pa) but could pay a lesser fee (the lowest fee in the approved range is \$8,750 pa) – overall a potential saving of \$94,440. In addition, Council could reduce the travel "mileage" rate allowance to the same level as the LG Award or ATO rate, as the current rate is above these.

However, it is arguable that Councillors are not paid enough in recognition of their workload now, so any reduction would make it more difficult to attract quality Councillor candidates at the next election and existing Councillors are less motivated to work as hard.

6. In major corporate cost reduction programs other measures have included:
 - a. Salary & wage freeze – this is not possible under the existing Award provisions;
 - b. New technology – contract negotiations are almost complete with Tech 1 to commence implementation of new systems which will have a two year completion time frame;
 - c. Sell underperforming assets – the Ross Report highlights some opportunities however this will be an involved community engagement process and early indications have not been supportive;

Resourcing Issues

At a Councillor Briefing (as part of the senior staff contractual matters committee meeting) on 24 August 2017 (Attachment 3), a number of resource challenges for Council were identified:

- Increasing community expectations
- Workload from a growing local economy and increased development
- Ageing workforce
- Competitiveness - ability to attract and retain the right people
- Performance against service delivery benchmarks

The Briefing identified approximately \$3.8M of ongoing resourcing needs. However, only \$2M of additional expenditure (approx. 50% of needs), phased over two years, is included in the financial modelling over the planning horizon.

Revenue Options

At the Budget Workshop on 31st August, three options were explored to increase revenue:

1. Apply "user pays" principle to a broader range of services provided by Council; for example, paid parking during peak periods, fees and charges for the use of sports grounds, spectator fee to access swim and fitness facilities. The attachment contains further details about the last two possibilities. Paid parking requires the development of a business case to ensure that benefits will be greater than the lifecycle cost.
2. Make a special levy.
The option of an Infrastructure Levy was raised at the Budget Workshop to address the asset renewal shortfall.

It is noted that a fixed annual charge, under section 501 of the Local Government Act 1993, can only be levied for purposes specified in the Act and those prescribed by regulation. Under the Act, Council may impose annual charges only for water, sewerage, drainage and waste services. Therefore, a levy can only be made and levied

legally as either ad valorem, ad valorem with a base amount or ad valorem and a minimum amount, and is indistinguishable from making a special rate. A portion of the special levy that was discussed has been included in the proposed rate increase for 2018/19 (+1%).

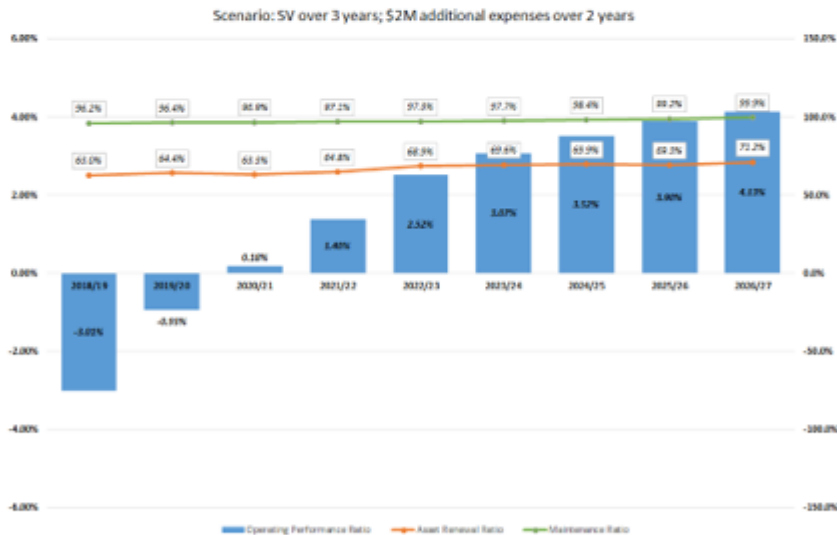
3. Make a Special Rate

To limit the impact on the community, address some of the resourcing issues at Council and progress toward the benchmarks for the three key Fit for the Future indicators (operating performance ratio; building and infrastructure asset renewal ratio; maintenance ratio), the following multi-year special variations are proposed:

- 5% rate increase (including the rate peg of 2.5%) in 2018/19
- 5% rate increase(including the rate peg of 2.5%) in 2019/20
- 5% rate increase(including the rate peg of 2.5%) in 2020/21

This means that there will be a cumulative increase of 15.8% over the 2017/18 rate base (assuming the 13.2% special variation is retained as a permanent increase), which is 4% lower than council's original 14% SRV for 2018/19. The increase will, however, allow Council to meet its Fit for the Future targets but at a slower rate.

The chart shows the projected impact on the key financial indicators of this proposal:



To achieve the asset renewal target of 100% by 2026/27, requires rate increases of 5% pa for the next seven years followed by a 3.4% increase in 2025/26.

Community Engagement

Community engagement in relation to proposed special variations has been ongoing since November 2016. If the recommendations in this Report are adopted by Council, a revised Delivery Program and Operational Plan, containing an additional chapter detailing the revisions, together with an updated Long Term Financial Plan, needs to be prepared for Council to adopt by mid-October 2017.

The community will, then, have an opportunity to make submissions to Council regarding the setting of rates for 2018/19 onward as part of the public exhibition of the revised Delivery Program and Operation Plan 2017/18 in October and November 2017. A report would be prepared for Council by the end of November 2017 and, if adopted, would allow Council to notify IPART of its intentions to lodge a special variations application in December 2017. Council would then need to make the formal application in February 2018.

The draft DPOP and related documents will be presented to Council in March 2018 and then placed on exhibition for 28 days. It is planned that Council will need to adopt the final DPOP/budget in June 2018. IPART are likely to announce its determination sometime in May 2018.

Financial Implications

While some cost-cutting options are possible, many require balancing service delivery levels with community expectations. Irrespective of the cost-cutting options adopted by Council, there will remain a funding gap that needs to be addressed by:

- Applying to IPART to have the one-off increase allowed in 2017/18 as a permanent rate increase. This reduces the funding gap from \$11.2M pa to \$4.1M pa
- Pursuing other revenue initiatives to allow Council to better meet the community's asset and infrastructure expectations, address some of the resourcing issues at Council and progress toward the benchmarks for the three key Fit for the Future indicators (operating performance ratio; building and infrastructure asset renewal ratio; maintenance ratio).

Should the recommended option of additional special variations (inclusive of a rate peg of 2.5%) of 5% over the next three financial years not be adopted, then other ways of bridging the funding gap will need to be determined.

Risk Implications

There are substantial risks to the financial sustainability of Council, if the existing and proposed special variations are not approved as a permanent increase or Council declines to identify how it can make budget (service) cuts or raise extra revenue. These options are set out in Attachments 1 and 2. It would have a significant detrimental impact on service levels.

If council continues a pathway of underfunding the identified asset renewal works than the risk of asset failure, inability to repair defects, or likelihood of more liability/accident claims will increase.

If Council choses the "do nothing" option, then the likely intervention from OLG, at some stage in the future, would increase.

Recommendation

That Council adopt Option 1 which will retain existing services, allow modest "new" asset spend, move towards meeting all FFTF benchmarks and stage the further rate increase required over the next three years.

MOTION (Clr Pakes / Clr Watson)

That Council:

1. Not apply for the 13.2% increase for the 2018/2019 financial year
2. Apply for a 2% rate increase + rate pegging for the remainder of this Council term
3. Informs its community of State Government and Federal Government "cost shifting", including the waste levy, and actively campaign against cost shifting and its implications and detrimental effects on rates leading to the next State Government election and beyond.

FOR: Clr Pakes, Clr Watson and Clr Proudfoot

AGAINST: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne, Clr Alldrick and Clr Levett

LOST

RESOLVED (Clr Proudfoot / Clr Watson)

MIN17.885

That an extension of time be granted for Clr Pakes.

FOR: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Alldrick, Clr Levett, Clr Pakes, Clr Watson and Clr Proudfoot

AGAINST: Clr Gartner and Clr Cheyne

CARRIED

RESOLVED (Clr Gartner / Clr Gash)

MIN17.886

That Council adopt Option 1 of the report to retain the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks

FOR: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne, Clr Alldrick and Clr Levett

AGAINST: Clr Pakes, Clr Watson and Clr Proudfoot

CARRIED

Note: A Rescission Motion was received on this item.

Councillor presentation - Pathways to financial sustainability: Resources Issues	CL 17.272	http://shoalhaven.infocouncil.biz/Open/2017/09/CL_20170926_ATT_3712_SUP_EXCLUDED_WEB.htm	26-Sep 2017
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Council resolution - Pathways to financial sustainability	Council resolution (Min 17.886) CL 17.272	http://shoalhaven.infocouncil.biz/Open/2017/09/CL_20170926_MIN_3712_WEB.htm	26/09/2017 and 3/10/2017
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RESOLVED (Clr Gartner / Clr Gash)

MIN17.886

That Council adopt Option 1 of the report to retain the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks

FOR: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne, Clr Alldrick and Clr Levett

AGAINST: Clr Pakes, Clr Watson and Clr Proudfoot

CARRIED

Note: A Rescission Motion was received on this item.

Rescission Motion - CL17.272 Pathways to financial sustainability - Lost	Rescission Motion - CL 17.276	http://shoalhaven.infocouncil.biz/Open/2017/10/CL_20171009_MIN_7768_EXTRA_WEB.htm	09-Oct 2017
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CL17.276 Rescission Motion - CL17.272 - Pathways to financial sustainability

HPERM Ref: D17/326938

Recommendation

That Council rescind the Motion relating to Item CL17.272 of the Council meeting held on 3 October 2017.

MOTION (Clr Pakes / Clr Proudfoot)

MIN17.891

That Council rescind the Motion relating to Item CL17.272 of the Council meeting held on 3 October 2017.

FOR: Clr Guile, Clr Pakes, Clr Watson, Clr Kitchener and Clr Proudfoot

AGAINST: Clr Findley, Clr Gash, Clr Wells, Clr Gartner, Clr Cheyne, Clr Alldrick and Clr Levett

LOST

Council report - Pathways to financial sustainability - special rate variation and Council resolution MIN 17.916	Council report (CL 17.280) Resolution (Min 17.916)	http://shoalhaven.infocouncil.biz/Open/2017/10/CL_20171017_MIN_7769_EXTRA_WEB.htm	17-Oct 2017
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CL17.280 Pathways to financial sustainability - Special Rate Variation **HPERM Ref: D17/333168**

Clr Pakes – less than significant non pecuniary interest declaration – he is the President of the Nowra-Culburra SLSC, and the Club receives \$5,000 of financial support – remained in the room and took part in discussion and vote.

Clr Pakes – less than significant non pecuniary interest declaration – he is a member of the Culburra CCB, and the CCB receives \$500 of support from Council – remained in the room and took part in discussion and vote.

Clr Wells – less than significant non pecuniary interest declaration – he is the President of the Illawarra Academy of Sport who receives financial support from Council – remained in the room and took part in discussion and vote.

Recommendation

That Council:

1. Adopt the proposed changes to the Integrated Strategic Plan (inclusive of the changes made to the Community Strategic Plan, Delivery Program, and Long Term Financial Plan) for exhibition purposes;
2. Publish the updated document and proceed with community engagement on the proposed document changes and its impact on the community.

RESOLVED (Clr Findley / Clr Cheyne)

MIN17.916

That:

1. Council adopt the proposed changes to the Integrated Strategic Plan (inclusive of the changes made to the Community Strategic Plan, Delivery Program, and Long Term Financial Plan) for exhibition purposes, in addition to the following;
 - a. For the 2017/18 and next financial year 2018/19 the \$10,000 from the Aerial Beach Patrol be used for beach safety signage
 - b. The funding of \$4.5million for the Vincentia Library be deferred to a subsequent year pending a workshop
2. The Long Term financial plan be fully updated prior to exhibition to reflect the changes outlined above as well as changes to potential loan borrowings resulting from consideration of the impacts of the North Nowra Link Road and Collector Roads and the update be distributed to Councillors prior to exhibition
3. Council include from the rate increase \$500,000pa to the upgrade of our sporting fields (Refer to Report SA17.270)
4. A report be submitted to the Ordinary meeting of 24 October 2017 outlining the above.

CARRIED

<p>Council report - Pathways to financial sustainability - special rate variation - Attachments - Chapter 2 - Introduction; Chapter 3 - Financials; Chapter 5 - Budget and Capital Works; Chapter 6 - Resourcing Strategy; Chapter 7 - Special Rate Variation</p>	<p>Council report (CL 17.280)</p>	<p>http://shoalhaven.infocouncil.biz/Open/2017/10/CL_20171017_ATT_7769_EXCLUDED_EXT_RA_WEB.htm</p>	<p>17-Oct 2017</p>
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CL17.280 Pathways to financial sustainability - Special Rate Variation

HPERM Ref: D17/333168

Group: General Manager's Group
Section: Executive Strategy

Attachments: 1. Chapter 2 - Introduction (under separate cover)
2. Chapter 3 - Financials (under separate cover)
3. Chapter 5 - Budget & Capital Works (under separate cover)
4. Chapter 6 - Resourcing Strategy (under separate cover)
5. Chapter 7 - Special Rate Variation (under separate cover)

Purpose / Summary

This report highlights the need for and changes to, the Integrated Strategic Plan (ISP) to inform and engage with the Shoalhaven community and achieve IPART requirements for a Special Rate Variation application.

~~Do not delete this box~~

Recommendation

That Council:

1. Adopt the proposed changes to the Integrated Strategic Plan (inclusive of the changes made to the Community Strategic Plan, Delivery Program, and Long Term Financial Plan) for exhibition purposes;
2. Publish the updated document and proceed with community engagement on the proposed document changes and its impact on the community.

~~Do not delete this box~~

Options

1. Adopt the amended Integrated Strategic Plan (ISP) as attached and exhibit as part of the community engagement undertaken for the proposed Special Rate Variation (SRV).

Implications: Council will be in a better position to achieve it's Fit for the Future targets, retain existing services and provide the community with necessary maintenance of existing assets to meet community needs.

2. Not adopt the amended ISP

Implications: Council will need to reduce spending and in-turn reduced service provision to the community to enable council to meet Fit for the Future targets.

Background

On the 3rd October 2017 Council adopted that:

"Option 1 of the report to retain the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks."

As part of any SRV application to IPART there is a requirement for the Integrated Planning and Reporting documentation of Council to clearly reflect the proposed SRV. For this to occur the ISP has been amended to reflect any proposed changes that would arise from a proposed SRV.

In its 2017/18 determination, IPART commented "Overall, we consider on balance the community was adequately consulted, despite the IP&R documentation not discussing the full extent of the rate rise."

Before applying to IPART for a special variation to general income, councils must adopt their Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable, Asset Management Plan. Councils may only apply to IPART for a special variation to general income based on those adopted IP&R documents. However, councils do not have to adopt their Operational Plan for the coming year before applying to IPART for a special rate variation.

In accordance with the Integrated Planning and Reporting Manual for local government in NSW Council's Integrated Strategic Plan (ISP) including: Community Strategic Plan (unchanged); Delivery Program and Operational Plan; and Resourcing Strategy, has now been amended as follows (refer Attachments 1 to 5 with specific changes highlighted):

- A new Chapter 7 has been added to the ISP document to provide a specific chapter which outlines the SRV proposal and its impact on Shoalhaven property owners
- Amendments to Chapter 5 (Resourcing Strategy) specifically the Long Term Financial Plan
- Amendments to Chapter 3 (Operational Plan Financials) to reflect updated tables and other information relevant to the SRV proposal
- Changes to the introduction of Chapter 2 (Delivery Program and Operation Plan Actions) to include information on the SRV

Community Engagement

To ensure the SRV application process and IPART requirements are fully covered a community engagement strategy will be implemented. The updated document including the additional ISP Chapter 7 will be placed on public exhibition for 28 days. In addition, the document will be added to Council's 'Get Involved' web site. During the exhibition period three public meetings will be held to explain the implications of the proposed SRV. All submissions received will be reported to Council at the end of the public exhibition process for formal adoption and consideration before a final decision and formal notification to IPART.

Financial Implications

All costs involved in the SRV process including the engagement strategy will be covered using operational budgets

Risk Implications

Further delaying the SRV application process may jeopardise Council's ability to adequately engage with the community and meet IPART deadlines.

Council report - Pathway to Financial Sustainability - Special Rates Variation - D17/343730	Council report (CL 17.295)	http://shoalhaven.infocouncil.biz/Open/2017/10/CL_20171024_ATT_3713_SUP_EXCLUDED_WEB.htm	24-Oct 2017
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CL17.295 Pathway to Financial Sustainability - Special Rates Variation **HPERM Ref: D17/343730**

Clr Wells – CL17.295 Pathway to Financial Sustainability – Special Rates Variation - less than significant non pecuniary interest declaration – Council provides a donation for the Illawarra Academy of Sport of which he is the president – remained in the room and took part in the discussion and vote.

Recommendation

That Council:

1. Adopt the proposed changes to the Integrated Strategic Plan, inclusive of the changes made to the Delivery Program, Operational Plan and Long Term Financial Plan (LTFP), for exhibition purposes;
2. Publish the updated document and proceed with community engagement on the proposed document changes and its impact on the community.

RESOLVED (Clr Wells / Clr White)

That Council:

1. Adopt the proposed changes to the Integrated Strategic Plan, inclusive of the changes made to the Delivery Program, Operational Plan and Long Term Financial Plan (LTFP), for exhibition purposes;
2. Publish the updated document and proceed with community engagement on the proposed document changes and its impact on the community.

PROCEDURAL MOTION (Clr Gartner / Clr Gash)

That the MOTION be PUT.

CARRIED

FOR: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne, Clr Levett and Clr Guile

AGAINST: Clr Pakes and Clr Proudfoot

THE MOTION WAS PUT AND RESOLVED (Clr Wells / Clr White) **MIN17.944**

FOR: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne and Clr Levett

AGAINST: Clr Guile, Clr Pakes and Clr Proudfoot

CARRIED

Council resolution - Pathway to financial sustainability - Special Rates Variation	Council resolution (Min 17.944)	http://shoalhaven.infocouncil.biz/Open/2017/10/CL_20171024_MIN_3713_WEB.htm	24-Oct 2017
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THE MOTION WAS PUT AND RESOLVED (Clr Wells / Clr White) **MIN17.944**

FOR: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne and Clr Levett

AGAINST: Clr Guile, Clr Pakes and Clr Proudfoot

CARRIED

Council report - Integrated Strategic Plan (CSP and DPOP) - Special Rate	Council report (CL 17.326)	http://shoalhaven.infocouncil.biz/Open/2017/11/CL_20171128_AGN_7766_AT_SUP_WEB.htm	28-Nov 2017
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Variation - D17/391915			
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CL17.326 Integrated Strategic Plan (CSP and DPOP)- Special Rate Variation

HPERM Ref: D17/391915

Group: General Manager's Group
Section: Executive Strategy

Attachments: 1. Special Rates Variation - Submissions Received 2017 (councillors information folder) [=](#)
2. IPART Timing for Submission [↓](#)

Purpose / Summary

To provide Council with the outcomes of the exhibition process that was carried out for the Special Rate Variation Proposal and the Integrated Strategic Plan exhibition (which included changes to the document resulting from the SRV proposal). To seek Council's adoption of the amended ISP documents and seek determination of whether Council intends to make an application to IPART for a SRV.

Recommendation

That Council:

1. Receive the feedback and results of community engagement
2. Adopt the amended Integrated Strategic Plan 2017 including the CSP, DPOP, Long Term Financial Plan and Chapter 7 SRV which include changes made to this document to specifically outline the proposed SRV, impact on residents and proposed expenditure of the SRV.
3. Authorise staff to notify IPART of its intention to apply for a Special Rate Variation Application for the retention of the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks.
4. That Council proceed with the formal Special Rate Variation Application for 2018/19 and submit this in line with the timelines set by IPART (i.e. February 2018)

Options

1. Adopt the recommendation as printed

Implications: Council will be in a better position to achieve, or progress towards, its Fit for the Future targets, retain existing services and provide the community with necessary maintenance of existing assets to meet community needs.

2. Not adopt the recommendation

Implications: Council will need to reduce operational spending and, in turn, reduce service provision to the community to enable council to meet Fit for the Future targets.

Background

On the 3rd October 2017 (reconvened from 26 September 2017) Council adopted that:

"Option 1 of the report to retain the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks."

A full overview including detail of financial options of the SRV proposal and implications/modelling was previously reported to Council on the 3rd October 2017 (reconvened from 26th September 2017). This report contained all the models that have been considered by Council staff and included several options for Council to consider, including alternative savings measures. This information has not been included in this report, however should it need to be reference the report can be found at:

http://shoalhaven.infocouncil.biz/Open/2017/09/CL_20170926_AGN_3712_AT_SUP.PDF

As part of any SRV application to IPART there is a requirement for the Integrated Planning and Reporting documentation of Council to clearly reflect the proposed SRV. For this to occur the ISP 2017 has been amended to reflect any proposed changes that would arise from a proposed SRV.

In its 2017/18 determination, IPART commented "Overall, we consider on balance the community was adequately consulted, despite the IP&R documentation not discussing the full extent of the rate rise."

Before applying to IPART for a special variation to general income, councils must adopt their Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable, Asset Management Plan. Councils may only apply to IPART for a special variation to general income based on those adopted IP&R documents. However, councils do not have to adopt their Operational Plan for the coming year before applying to IPART for a special rate variation

At the Extraordinary Council meeting on 17 October 2017, Council considered the report CL 17.280 Pathways to Sustainability – Special Rate Variation. At this meeting, Council resolved the following:

That:

1. Council adopt the proposed changes to the Integrated Strategic Plan (inclusive of the changes made to the Community Strategic Plan, Delivery Program, and Long Term Financial Plan) for exhibition purposes, in addition to the following:
 - a. For the 2017/18 and next financial year 2018/19 the \$10,000 from the Aerial Beach Patrol be used for beach safety signage
 - b. The funding of \$4.5million for the Vincentia Library be deferred to a subsequent year pending a workshop
2. The Long Term financial plan be fully updated prior to exhibition to reflect the changes outlined above as well as changes to potential loan borrowings resulting from consideration of the impacts of the North Nowra Link Road and Collector Roads and the update be distributed to Councillors prior to exhibition
3. Council include from the rate increase \$500,000pa to the upgrade of our sporting fields (Refer to Report SA17.270)
4. A report be submitted to the Ordinary meeting of 24 October 2017 outlining the above.

CARRIED

This community engagement for the SRV and for the IP&R documentation was completed during October and November 2017. The community consultation period closed on Thursday the 23rd November at 11.59 pm.

Outcomes of Community Engagement

An extensive community engagement was carried out for both the SRV proposal and the proposed amendments to Councils IP&R documentation (resulting from the SRV proposal).

This engagement included (but was not limited to):

- Public meetings
- TV advert
- Public Notices
- Document exhibition (at admin centres)
- Get Involved Page
- CCB notification and advice at Executive Meeting
- Radio interviews
- Media Release
- Newsletter in rates notice
- E-news
- Facebook posts

A total of 8 formal submissions were received from the community. There were also several emails and questions raised by a member of the public. This resulted in an email trail which includes several responses and further questions. This email has been considered as 1 additional submission bringing the total to 9 submissions. These are summarised in Table 1 below. A copy of each of the submissions is provided in the Councillor Information folder.

One submission was a specific request for a funding for a project at a location in Shoalhaven, one submission sought answers to questions regarding works undertaken by Council, three submissions were in support of a rates increase. Once submission sought answers to a number of questions relating to accounting, staff costs and other matters and three did not support an increase in rates.

There was also commentary provided via letters to the editor and on Facebook. These have not been treated as formal submissions to Council but will be recorded in any subsequent report to IPART on the engagement process if required.

No.	NAME	SUBMISSION	COMMENT (if applicable)
1.	Public member, received 20/10/2017	<p><i>I have downloaded the latest Neighbourhood News which says: - Neighbourhood Spring 2017</i></p> <p><i>In June 2017, Council adopted a special rate variation of 13.2% (including the 1.5% rate peg) for the 2017/18 financial year. This increase in rates has assisted Council to meet the growing infrastructure and maintenance needs of our community.</i></p> <p><i>Like the widening of Bolong Rd which took many months and costing hundreds of thousands of dollars...</i></p> <p><i>The question is - what was the need for such intensive works as the road was already wide enough?</i></p> <ul style="list-style-type: none"> <i>• To make a freeway to allow idiots to speed up even more due to the extra space?</i> <i>• For Cyclists - I use this road many times a week and I only see very few cyclists on that road. Besides there was already enough space before the new works.</i> <i>• For vehicles to pull over (phone calls, etc.) - cars rarely stop and I've never seen a truck stopped anywhere at all.</i> <i>• What is the council going to do where the new extra wide road reaches the concrete bridge or Bomaderry centre where CB is situated and beyond as they are bottlenecks?</i> <i>• The money would have been better spent on building a railway crossing overpass - like in Gerringong.</i> <p><i>I could list a lot of urgent works to be done with a lot more usefulness.</i></p> <p><i>A lot of unanswered questions about the Council management of the ratepayer's monies.</i></p>	<p>Noted- A formal response to the questions raised were provided to the community member.</p> <p>Widening improves safety for motorists and cyclists. Funding from RMS.</p>
2.	Public member, received 27/10/2017	<p><i>It seems to me to be most obvious that SCC must apply each year for an SRV for the years 2018 to 2021. If rates aren't increased then there can be no improvement in services and facilities provided to a Council area where there is one of the highest youth rates unemployment in NSW.</i></p>	Support Noted

3.	Public member, received 27/10/2017	<p><i>We object to the cavalier way this very significant rate variation of +13.2% is being proposed. This represents an approximate 600% increase against the approx. 2% CPI increases of the current financial and economic climate. We accept Council needs to be able to do its job properly but first of all I would like to be convinced that Council administration is improving its own inefficiencies, like extravagant sick leave provisions, excessive travel and meal allowances and excessive salaries for senior staff etc. We continually witness council extravagances in relation to payments to contractors and other inefficiencies and before we hear from Council that it cannot continue to meet rising costs without raising more revenue or cutting services, we would like to hear how productivity improvements within Council and its administration will help alleviate the current financial predicament it finds itself in. Its remiss of Council to propose the massive increase on ratepayers without factoring in an efficiency improvement program on Council itself. As a ratepayer, I don't want to pay for Council inefficiencies and extravagances as part of a +13.2 % grab for cash.</i></p>	<p>Noted- Council has considered alternative options to the SRV proposal and factored in efficiency cost reductions in previous years</p>
4.	Public member, received 28/10/2017	<p><i>The rates increase is too large a burden for residents to bear. To continue this increase AND expect us to even pay higher rates into the immediate future and beyond is unacceptable and shows Councillors are out of touch with the electorate. Coupled with the excessive increases in electricity prices and historically low wages growth, households are struggling and Councillors need to recognise this situation. The size of this increase indicates Councillors are forcing us to live beyond our means. The reasons given such as we need more swimming pools is a nonsense. Council is not truly looking critically at community needs. Sometimes it needs to say no to frivolous expenditure. We should be curtailing expenses and informing people to reduce their expectations.</i></p>	<p>Noted- Council has considered alternative options to the SRV proposal.</p>
5.	Public member, received 03/11/2017	<p><i>Thank you for the presentation council did at Ulladulla Civic Centre on Wednesday 7 November 2017, it was very informative</i></p> <p><i>I have one concern and would like to have this removed: -</i></p> <ul style="list-style-type: none"> <i>• money was being allocated to Milton Showground internal roads. I would like to see this removed and the money allocated to roads that residents benefit from.</i> <p><i>I am in agreeance with the Special Rate Variation, and can see the benefit to the Shoalhaven Area</i></p>	<p>Support Noted- it is not recommended that council make a change at this time.</p>

6.	Public member, received 03/11/2017	<i>We need the rate rise to improve our infrastructure and to be fit for the future. More and more development is happening in the Shoalhaven and the current facilities in their current state will not cope into the future</i>	Support Noted
7.	Public member, received 23/11/2017	<i>"I think the rate increases by 5% each year are outrageous and way above the CPI. I had a feeling when Council attempted to set this special rate increase last year that it wouldn't be the end of it. This is just a continuous slug and who's to say the Council won't keep on asking for increases each year thereafter? Shoalhaven Council rates are already more expensive than they are for example in the Hills Shire in Sydney where the land is worth 3 times as much but rates are cheaper and many more facilities are provided such as kerb and guttering and paved footpaths. The council can't even provide a smooth road between Huskisson and Vincentia - the current road is full of bumps and uneven surfaces. Shoalhaven Council should get its act together and look at how the Hills Shire manages. They balance their books and are in a strong financial position each year because of good financial management and certainly do not attempt to impose a severe financial strain on ratepayers. Also, many of the Shoalhaven ratepayers are on fixed incomes and least able to afford such savage increases. Council should seriously give thought to a compromise solution where you cut back on more non- essential works, such as grants to arts and fringe communities - and concentrate more on fixing the essentials. This would make you as a council more credible with ratepayers.</i>	Noted- Council has considered alternative options to the SRV proposal.
8.	Collingwood Beach Preservation Group	<p>Requesting funding for drainage and stormwater works to be carried out at Collingwood beach. Seeks a specific budget request to be added to the Operational Plan for 2018/19.</p> <p><i>"This submission is provided in response to Council request for feedback on its proposal to apply to the Independent Pricing and Regulatory Tribunal (IPART) for a Special Rate Variation (SRV) for each of the next three financial years.</i></p> <p><i>We put forward the original DPOP's which we have been updated to reflect changes for moving forward with the CBDVMP and scheduled site visit in December by the Environmental and Assets team for the storm water. We trust that these submissions will be taken into consideration in the updated future DPOP process."</i></p>	<p>Yes-these will be considered during the normal DPOP exhibition and review process that will occur in March 2018.</p> <p>Specific budget requests were not considered as part of this process as focus was on the amendments made to the plans as a result of the SRV proposal. A further exhibition of the DPOP documents and call for budget adjustments will be made next year.</p>

IP&R documentation

There are no changes proposed to the IP&R documentation as result of the exhibition period. The IP&R documents include the Special Rate Variation proposal and this will remain as exhibited unless Council adopts an alternative recommendation.

Policy Implications

There are no implications on any policies in relation to this report.

Financial Implications

If the revised Integrated Strategic Plan (ISP), including the proposed Special Rate Variation (SRV), is adopted, Council will be in a better position to achieve its Fit for the Future targets, retain existing services and provide the community with necessary maintenance of existing assets to meet community needs.

Should the revised Integrated Strategic Plan (ISP) and proposed Special Rate Variation (SRV) not be adopted, then Council will need to reduce operational spending and, in turn, reduce service provision to the community to enable council to meet its Fit for the Future targets and be in a financially sustainable position going forward

Risk Implications

There are substantial risks to the financial sustainability of Council if a special rate increase is not supported. It would have a significant detrimental impact on service levels or programs if the approval to apply to the IPART for a Special Rate Increase is not supported.

Circular Details	Circular No 17-35 / 9 November 2017 / A566474
Previous Circular	Circular No 16-48
Who should read this	Councillors / General Managers / Council Finance and IP&R staff
Contact	Policy Team - 02 4428 4100 / olg@olg.nsw.gov.au
Action required	Information

Special Variation and Minimum Rate Variation Guidelines and Process for 2018/19

What's new or changing

- The timetables for 2018/19 Special Variation and Minimum Rate Variation applications have been released.
- The Guidelines that apply to 2018/19 Special Variation and Minimum Rate Variation applications have been published.

What this will mean for your council

- New councils (except for Mid-Coast Council) will not be eligible to apply for a special or minimum rate variation for the 2018/19 rating year.
- The Guidelines outline the process for all other councils seeking to apply for a special or minimum rate variation for 2018/19.

Key points

- Councils should assume the rate peg for 2019/20 and in future years is 2.5%. IPART has advised that the rate peg for 2018/19 may be below 2.5% based on current information. When IPART releases the rate peg for 2018/19, councils should update their applications to reflect the actual 2018/19 rate peg.
- New councils (except for Mid-Coast Council) are not eligible for a special or minimum rate variation.
- Councils are to submit a request for a Crown Land Adjustment to the Office of Local Government.
- The timetable published in the Guidelines applies to Special Variation and Minimum Rate Variation applications for 2017-18. In future years this timetable will not be included in the Guidelines and will only be communicated via circular.

2018/19 Application Timetable

Date	Outcome
15 December 2017	Notifications for Special Variation or Minimum Rate variation applications due to IPART
12 February 2018	Special Variation applications due to IPART
12 March 2018	Minimum Rate Variation applications due to IPART
15 May 2018	Determinations announced for Special Variations and Minimum Rate Variations

Where to go for further information

- The Special Variation and Minimum Rate Variation Guidelines are available on the Office's website at Rating and Special Variations.
- All eligible councils intending to apply for a Special Variation or Minimum Rate Variation in 2018/19 should contact IPART well in advance of submitting an application.
- Any inquiries regarding the application process should be directed to an IPART staff member:
 - Anthony Rush (02) 9113 7790
 - Derek Francis (02) 9290 8421
 or by email to localgovernment@ipart.nsw.gov.au

Tim Hurst
Acting Chief Executive

Office of Local Government
5 O'Keefe Avenue NOWRA NSW 2541
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<p>Council resolution - Adopt amended Integrated Strategic Plan (CSP-DPOP - Long Term Financial Plan) - Special Rate Variation Application - IPART - 13.2% 2017 / 2018 - 5% 2018 / 2019 - 5% 2019 / 2020 - 5% 2020 / 2021</p>	<p>Council resolution Min 17.999 (CL17.326)</p>	<p>http://shoalhaven.infocouncil.biz/Open/2017/11/CL_20171128_MIN_7766_WEB.htm</p>	<p>28-Nov 2017</p>
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Recommendation

That Council:

1. Receive the feedback and results of community engagement
2. Adopt the amended Integrated Strategic Plan 2017 including the CSP, DPOP, Long Term Financial Plan and Chapter 7 SRV which include changes made to this document to specifically outline the proposed SRV, impact on residents and proposed expenditure of the SRV.
3. Authorise staff to notify IPART of its intention to apply for a Special Rate Variation Application for the retention of the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks.
4. That Council proceed with the formal Special Rate Variation Application for 2018/19 and submit this in line with the timelines set by IPART (i.e. February 2018)

MOTION (Clr Cheyne / Clr Gartner)

That Council:

1. Receive the feedback and results of community engagement
2. Adopt the amended Integrated Strategic Plan 2017 including the CSP, DPOP, Long Term Financial Plan and Chapter 7 SRV which include changes made to this document to specifically outline the proposed SRV, impact on residents and proposed expenditure of the SRV.
3. Authorise staff to notify IPART of its intention to apply for a Special Rate Variation Application for the retention of the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks.
4. That Council proceed with the formal Special Rate Variation Application for 2018/19 and submit this in line with the timelines set by IPART (i.e. February 2018).

MOTION (Clr Gartner / Clr Cheyne)

That the MOTION BE PUT.

CARRIED

FOR: Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne, Clr Alldrick and Clr Levett

AGAINST: Clr Guile, Clr Pakes, Clr Watson, Clr Kitchener and Clr Proudfoot and Clr Findley

RESOLVED (Clr Cheyne / Clr Gartner) MIN17.999

That Council:

1. Receive the feedback and results of community engagement
2. Adopt the amended Integrated Strategic Plan 2017 including the CSP, DPOP, Long Term Financial Plan and Chapter 7 SRV which include changes made to this document to specifically outline the proposed SRV, impact on residents and proposed expenditure of the SRV.
3. Authorise staff to notify IPART of its intention to apply for a Special Rate Variation Application for the retention of the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks.
4. That Council proceed with the formal Special Rate Variation Application for 2018/19 and submit this in line with the timelines set by IPART (i.e. February 2018).

FOR: Clr Findley, Clr Gash, Clr Wells, Clr White, Clr Gartner, Clr Cheyne, Clr Alldrick and Clr Levett

AGAINST: Clr Guile, Clr Pakes, Clr Watson, Clr Kitchener and Clr Proudfoot

CARRIED

Amended notification letter – D17/419824 – email	D17/419824	http://doc.shoalhaven.nsw.gov.au/displaydoc.aspx?record=D17/419824	15-Dec 2017
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and letter sent to IPART - 15 Dec 2017			
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Bridge Rd, Nowra NSW 2541 02 4429 3111
Deering St, Ulladulla NSW 2539 02 4429 8999

Address all correspondence to
The General Manager, PO Box 42, Nowra NSW 2541 Australia
DX5323 Nowra Fax 02 4422 1816

Council Reference: 56128E (D17/409887)

PO Box K35
Haymarket Post Shop
NSW 1240

Dear Sir/Madam

Shoalhaven City Council – Special Rate Variation

This letter is to formally notify IPART that Shoalhaven City Council intends to apply for a special variation to our rating base.

Shoalhaven City Council resolved to apply for a special variation to its general income at its Ordinary Meeting on 28 November 2017:

MIN17.999 - That Council:

1. Receive the feedback and results of community engagement
2. Adopt the amended Integrated Strategic Plan 2017 including the CSP, DPOP, Long Term Financial Plan and Chapter 7 SRV which include changes made to this document to specifically outline the proposed SRV, impact on residents and proposed expenditure of the SRV.
3. Authorise staff to notify IPART of its intention to apply for a Special Rate Variation Application for the retention of the 13.2% special variation approved as a one-off increase in 2017/18 as a permanent increase and for additional special variations (inclusive of a rate peg of 2.5% pa) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21 which will retain existing services, allow modest "new" asset spend and move towards meeting all FFTF benchmarks.
4. That Council proceed with the formal Special Rate Variation Application for 2018/19 and submit this in line with the timelines set by IPART (i.e. February 2018).

Council will be applying for a proposed rate increase under Section 508A of the Local Government Act for successive annual increases over three years of 17.1% in 2018/19, 5.0% in 2019/20 and 5.0% in 2020/21, including the rate peg, which are permanently retained within the rates base. For 2017/18, IPART determined that the special variation could be retained in Council's general income base for one year and was to be

removed in 2018/19. The effect of Council's application is to seek to retain the 13.2% special variation (including the Verons Estate component), approved as a one-off increase in 2017/18, as a permanent increase and for additional special variations (inclusive of the rate peg) of 5% in 2018/19, 5% in 2019/20 and 5% in 2020/21. The proposed special variation is for the purpose of improving Council's financial sustainability, funding capital expenditure for asset renewal, reducing the infrastructure backlog and funding asset maintenance. The Verons Estate component is to fund a twenty-year loan of \$2.3m for the purpose of providing essential infrastructure to the Estate (fire safety and road infrastructure), so that development can occur.

If you need further information about this matter, please contact Michael Pennisi, Finance, Corporate & Community Services Group on (02) 4429 3322. Please quote Council's reference 56128E (D17/409887).

Yours faithfully,



Michael Pennisi
Chief Financial Officer

15 December 2017

Application amended notification letter - Special Rate Variation - D18/44 - received from IPART (W17/2944) - 18 Dec 2017	D18/44	http://doc.shoalhaven.nsw.gov.au/displaydoc.aspx?record=D18/44	18-Dec 2017
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Hi Vanessa Phelan,

RE: Shoalhaven City Council - Application Notification Letter

Our reference:

File Part : Application Notification Letter

Description : Application - Notification - Letter 2017

Uploaded File Name : Notification-Letter-to-IPART-for-SCC-Special-Variation_171215.pdf

Reference Number : W17/2944

Thank you for submitting a notification letter of your intention to apply for a special variation application.

Special Variation notification letters are made available for public inspection (subject to any limitations of commercial confidentiality). Your notification letter will shortly be available to view on the IPART website (www.ipart.nsw.gov.au) under the Local Government industry / Special Variation & Minimum Rates.

Your notification letter will remain locked in the IPART Council Portal until cleared by IPART for publishing on our website.

Yours sincerely,

IPART

7 Assessment criterion 5: Productivity improvements and cost containment strategies

Criterion 5 in the Guidelines is:

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

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

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

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

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

Over the past four years, Council has undertaken an extensive review of its services and programs. This has resulted in significant reductions to expenditure of over \$6 million annually as outlined in the Table 12 below

Table 12: Savings from restructure, service reviews and other areas

Summary of Savings 2013 - 2016	
Communication reductions	-\$ 143,364
CPI reductions	-\$ 2,130,816
Electricity reductions	-\$ 365,000
EOFY additional savings	-\$ 338,548
FBT reductions	-\$ 172,675
Fuel reduction (less fleet)	-\$ 348,000
Interest gains - advisory use	-\$ 216,190
Maintenance & Construction	-\$ 143,174
Misc reductions	-\$ 10,533
Operational reductions	-\$ 182,034
Procurement changes	-\$ 110,555
Reductions in casuals	-\$ 187,803
Reductions in plant costs	-\$ 211,156
Reductions in salary costs	-\$ 2,376,380
Costs associated with redundancies and other restructure matters	\$ 500,000
Total	-\$ 6,436,226

A savings target is built into Council's financial strategy but it does not achieve the required change needed to address the deficit.

In 2017, Council considered a number of options to reduce the reliance on a special variation to achieve financial sustainability over the medium term:

1. Operational service reductions and revenue opportunities

Each \$600,000 addition to Council's net operating result decreases the need for a rate rise by approximately 1% and improves the Operating Performance Ratio. While a number of savings have been achieved, further reductions would give rise to serious outcomes, particularly reduced services, increased complaints and delays.

At a Councillor Briefing on 24 August 2017, a number of resource challenges were identified:

- Increasing community expectations
- Workload from a growing local economy and increased development
- Ageing workforce
- Competitiveness - ability to attract and retain the right people
- Performance against service delivery benchmarks

Benchmarking from the LG Professionals and PwC report, 'Local government operational and management effectiveness report' (<http://doc.shoalhaven.nsw.gov.au/Displaydoc.aspx?Record=D17/422739>), Office of Local Government comparative data and a range of internal indicators, indicate that:

- a. Total administration costs as a percentage of operating costs; and
- b. Staffing levels in corporate services (finance, customer services, IT & HR) and DA assessment

are already below industry levels, i.e., staff levels need to increase in some areas to meet workloads and community expectations.

In the absence of an integrated business solution, further reductions would lead to inefficiencies, staff dissatisfaction and increased turnover, reduced productivity and increased absenteeism.

The Briefing identified approximately \$3.8M of ongoing resourcing needs. However, only \$2M of additional expenditure (approximately, 50% of needs), phased over two years, is included in the financial modelling over the planning horizon.

A number of revenue raising initiatives are also under review, particularly, the application of "user pays" principles to a broader range of services provided by Council; for example, paid parking during peak periods and spectator fee to access swim and fitness facilities. Such initiatives require a business case to ensure that benefits will be greater than lifecycle costs.

2. Reduce capital expenditure by removing new, unfunded asset works, including any budgets to produce masterplans, complete detailed design works, etc.

Savings up to \$750K may be possible but, again, there are serious implications and community expectations will not be met. Such savings would free up funds for asset renewals and/or improve Council's cash deficit position but would not improve operating performance.

3. Target further operational productivity improvements.

The LTFP includes a salary savings target of \$233,900 in the 2017/18 budget and this is escalated over the forward years in line with projected award increases. The salary savings target could be increased but this requires a deliberate delay in recruiting for vacancies, as they occur. This results in a loss of capacity to undertake works, more pressure on other staff members and potential for service complaints. In addition, savings in non-salary items (materials and contracts and other expenses) expenditures are budgeted at the rate peg and below CPI. For the 2016/17 budget, this was quantified at \$1.8M in savings. Substantial "productivity" savings were also factored into the 2014/15 and 2015/16 budgets as part of the Transformation Program and further reductions will have a real impact on operations.

4. Procurement savings.

Continue to budget for savings from procurement. The estimated saving for 2017/18 is \$60K. There are diminishing returns from tendering activities as fewer existing contracts are available to be market tested or negotiated as part of the Illawarra Shoalhaven Joint Organisation (ISJO), together with Council's existing use of large panel arrangements. Favourable price reductions may not be achieved due to changes in exchange rate, utility costs, interest rate rises, etc.

While some cost-cutting options are possible, many require balancing service delivery levels with community expectations. Irrespective of the cost-cutting options adopted by Council, there will remain a funding gap that needs to be addressed by:

- Applying to IPART to have the one-off increase allowed in 2017/18 as a permanent rate increase. This reduces the funding gap from \$11.2M pa to \$4.1M pa
- Pursuing other revenue initiatives to allow Council to better meet the community's asset and infrastructure expectations, address some of the resourcing issues at Council and progress toward the benchmarks for the three key Fit for the Future indicators (operating performance ratio; building and infrastructure asset renewal ratio; maintenance ratio).

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.- need to check off the items and ensure included

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	<input checked="" type="checkbox"/>
Media releases, public meeting notices, newspaper articles, fact sheets relating to the rate increase and proposed special variation (contained within Attachments 6 & 8)	<input checked="" type="checkbox"/>
Community feedback (including surveys and results if applicable) (contained within Attachments 6 & 8)	<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 (contained within Attachment 9)	<input checked="" type="checkbox"/>
Past Instruments of Approval (IPART 2017 Determination)	<input checked="" type="checkbox"/>
Resolution to adopt the revised Community Strategic Plan (if necessary) and/or Delivery Program	<input checked="" type="checkbox"/>

IPART 2017 Determination – Shoalhaven City Council’s application for a special variation for 2017-18



Other (please specify) see below



Attachment	Description
Attachment 1	October 2014 Financial Sustainability Document
Attachment 2	SRV Report - Final Feb 1
Attachment 3	Verons Information
Attachment 4	Long Term Financial Plan
Attachment 5	Addendum - Financial Indicators
Attachment 6	Community Engagement Report for SRV 2017-18
Attachment 7	ISP - Chapter 7 Special Rate Variation
Attachment 8	Community Engagement Report for SRV 2018-19
Attachment 9	Table of Evidence & Links
Attachment 10	POL16_200 Revenue Hardship Policy
Attachment 11	PRD15_153 Procedure Hardship Determination
Attachment 12	Table of Statements

9 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: Shoalhaven City Council

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

General Manager (name): Russ Pigg

Signature and Date:

Responsible Accounting Officer (name): Michael Pennisi

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.