



Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

For applications for 2014/15

Issued October 2013

Cessnock City Council

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1 Introduction

As Cessnock City Council's integrated planning improves there is better information to make decisions about the organisation's future, in particular its financial sustainability.

One part of Council's response to the financial challenges it faces, is a two-phase special rate variation strategy.

This application (phase 1 of Council's special rate variation strategy) is for a one-off percentage increase of 9.55% that will remain permanently in the rate base.

Cessnock City Council has had four special rate variations approved since 2001. The first increase of 2.31% was approved in 2001 for a five year period. All of the funds from that increase were targeted towards road infrastructure improvements.

The second increase was 6.05% per year for a five-year period commencing in 2006-07 and expiring in 2010-11. The money raised from this special rate variation was spent on road resealing and rehabilitation and community building refurbishment.

The third increase of 6.05% per year was granted under Section 508(2) of the Local Government Act for a two year period commencing in 2011-12 and expiring in 2012-13. The money raised from this special rate was spent on resealing, heavy patching and rehabilitation of regional roads, urban collector roads, and rural collector roads in the local government area.

The most recent increase was an extension of the Section 508(2) special rate variation of 6.05% for a further twelve months expiring on 30 June 2014.

If this application is successful, Council intends to continue to allocate funds to the renewal of roads within the local government area.

2 Focus on Integrated Planning and Reporting

This section focuses on the alignment of Cessnock City Council's integrated planning and reporting documents with the proposed special rate variation.

Draft integrated planning documents were placed on public exhibition from 8 May 2013 to 5 June 2013. Copies of the documents were available for viewing at the Administration Centre in Cessnock, at Council's Libraries in Cessnock and Kurri Kurri and on Council's website. In addition, Council staff scheduled a community briefing session on Thursday, 23 May 2013 to explain the draft documents and answer questions. Cessnock City Council adopted its Community Strategic Plan (Attachment 1), 2013-17 Delivery Program and Resourcing Strategy on 19 June 2013.

The adopted Long-Term Financial Plan included the continuation of the existing special rate variation in all of its modelling for future years in order to continue the improvement of Council's road network.

Following Council's endorsement of a two-phase special rate variation strategy, revisions were made to its integrated planning documentation to ensure there was sufficient information to support this application and clarity regarding the special rate variation options under consideration.

In summary, the revised documentation included an overview of Council's special rate variation strategy, evidence of the community's support for ongoing improvements to the road network, details of community engagement, the impact of any rate increase and the initiatives that Council is undertaking to minimise the quantum of any rate increase.

Revised integrated planning documents were placed on public exhibition from 18 December 2013 to 3 February 2014. Copies of the documents were available for viewing at the Administration Centre in Cessnock, at Council's Libraries in Cessnock and Kurri Kurri and on Council's website. Cessnock City Council adopted its revised 2013-17 Delivery Program and Resourcing Strategy on 19 February 2014 (Attachment 3).

This application is made on the basis of the assumption (in the adopted Resourcing Strategy) that there will be a 9.55% increase in rates in 2014-15 (that remains permanently in the rate base).

This application under Section 508(2) is the first phase of Cessnock City Council's special rate variation strategy. The funds generated from 6.05% of this proposed increase (of 9.55%) will continue to be allocated, in line with community feedback, to the renewal of roads throughout the local government area.

To further improve the outlook for Council's financial sustainability, Cessnock City Council will consider a number of options including a potential further special rate variation (as part of the second phase of the special rate variation strategy).

3 Assessment criterion 1: Need for the variation

At the highest level, the key purpose of Cessnock City Council's special rate variation is:

Infrastructure maintenance / renewal

This special rate variation will also address the infrastructure backlog by reducing the rate of increase in the backlog.

3.1 Community needs

The need for the special rate variation

As noted on page 60 of Council's 2013-17 Delivery Program (Attachment 2); consultation during the development of Council's initial community strategic plan (*Cessnock 2020* – adopted in October 2010) highlighted the condition of Cessnock's roads as a major issue for the future. As a result, Council's adopted community strategic plan, *Cessnock 2023* identified "*Improving the road network*" as one of the objectives for the future of the local government area.

Actions to support the objective of *improving the road network* have been incorporated in Cessnock City Council's 2013-17 Delivery Program (page 31 of Attachment 2) via the Operational Plan and Capital Works Program.

Cessnock City Council administers an area of approximately 1,950 square kilometres and in 2012 had an estimated residential population of 53,289. Due to the geographic spread of the local government area, Council has more kilometres of roads per capita (0.01957km) than other Lower Hunter Councils. Council is responsible for maintaining approximately 1,000km of road pavement. Of this, around 100km are regional roads that provide connectivity between larger villages and towns both within and outside the local government area. The remaining 900km are local roads of which approximately 330km are unsealed gravel roads while the remaining 570km are generally sprayed bitumen seal with smaller lengths of asphalt or concrete pavement. Of the local road network, approximately 170km are classified as local collector roads that provide the primary connectivity within larger villages and towns.

As part of Council's asset management system, Council undertakes comprehensive condition assessments of its sealed road network and has developed an overall Pavement Condition Index (PCI) which is based on accepted industry best practice. The PCI assumes a ranking of 10 for a road without defects and deducts points depending on the level and types of distresses in the road pavement.

The PCI is a technical measure of the constructed road pavement that is available for traffic use. It does not account for roads that have a less than desirable width, have 'edge break' or limited table drainage, have unsealed shoulders, have no kerb and gutter, have no piped storm water drainage or have no paved footpaths.

Examples of various pavement condition indices are included in Attachment 14.

As a road network deteriorates, the need for routine maintenance increases (i.e. pothole patching, heavy patching, edge break repair and crack sealing). The cost of asset replacement (i.e. resurfacing and rehabilitation) plus routine maintenance is known as the 'whole of life' cost. If the required maintenance funds for the road network are not available, including the increases required as a result of a reduced average PCI or the provision of additional new (developer-provided) roads, then the rate of deterioration of the network will increase and result in a further reduction of the average network PCI.

In accordance with the integrated planning and reporting framework and AASB116 "Fair Value" Property, Plant and Equipment accounting standards, a whole-of-network assessment of Council's road network was carried out in 2009-10. This data was used to support Council's previous special rate variation applications (for 2011-12 and 2013-14). Council updates its road asset condition data on a regular basis and the next whole-of-network condition assessment is due to commence in 2014.

In 2009-10, the average condition of Council's sealed road network was assessed at 7.76, which ranks the overall road network as very good under the Index. Of the total road network, only 3.88% was rated as failed with a further 3.98% being rated as poor or very poor. However, further analysis indicated that the regional roads within the road network were in much worse condition: 16.85% of the regional roads were rated as failed while a further 7.99% were rated as poor or very poor. Council's local collector roads, as a subset of all local roads, were in a similar condition and rate of decline as the regional road network.

Considering that both regional and local collector roads are utilised most by the community, it is not unexpected that their condition provides a significant influence on the public opinion in relation to the condition of Council's overall road network.

In the absence of an updated whole-of-network road condition assessment (due to commence in 2014). Council's database indicates that the change in asset management practice (with a focus on asset renewal) in the past few years has been effective, with the interim assessment of the 2012-13 average condition of Council's sealed road network being assessed at 8.06 up from 7.76. This indicates that the overall rate of deterioration has been reduced and the overall condition of the network has slightly improved in the short-term. A closer examination of the regional road sub-network presents an even clearer picture of the impact that the changes in asset management practice and the application of the additional special rate variation funds has had in terms of reduced deterioration and sub-network improvement (refer to Table 1 below).

There is a margin of uncertainty in the interim PCI as it is not the result of a whole-of-network assessment. The condition data used has only been updated for those roads which have been treated (i.e. those roads that have been renewed or replaced) and the deterioration of those untreated roads is based on the underlying computer model and not on observation.

Table 1 below benchmarks the 2009-10 road condition indices with the interim 2012-13 road condition indices:

Table 1: Pavement Condition Indices 2009-10 and interim 2012-13

| PCI | Condition | % Total Sealed Road Network 2009-10 | % Total Sealed Road Network 2012-13 (interim) | % Regional Road Network 2009-10 | % Regional Road Network 2012-13 (interim) |
|------------------|------------------|--|--|--|--|
| 8.5 to 10 | Excellent | 54.03% | 11.23% | 39.13% | 7.65% |
| 7 to 8.5 | Very Good | 24.63% | 20.95% | 23.67% | 16.82% |
| 5.5 to 7 | Good | 9.45% | 54.32% | 9.15% | 47.49% |
| 4 to 5.5 | Fair | 4.03% | 12.86% | 3.21% | 26.83% |
| 2.5 to 4 | Poor | 2.10% | 0.64% | 1.50% | 1.21% |
| 1 to 2.5 | Very Poor | 1.88% | 0.00% | 6.49% | 0.00% |
| < 1.0 | Failed | 3.88% | 0.00% | 16.85% | 0.00% |

The information in Table 1 above demonstrates that the focus of the funds from the current special rate variation on the renewal of regional and local collector roads has delivered its intended outcome for the benefit of all road users.

By seeking a permanent special rate variation, funds will continue to be allocated to maintain the focussed improvement of the overall condition of the road network by the extension of the useful life of existing assets and a reduction in the rate of deterioration of the regional road and local collector road networks.

This will be achieved through a continued road resealing and rehabilitation program targeting regional and local collector roads in both rural and urban localities. The apportionment of these additional funds will continue to be allocated in line with the existing special rate variation as presented in Table 2 below.

The development of the annual road renewal program is defined by Council's asset management process and is a comprehensive process undertaken during the period February to May each year as part of the development of the annual Operational Plan. It includes updating road asset condition data (for renewal projects completed in the current year), identification of likely new candidates (condition based treatment triggers) through Council's Asset Management System, prioritisation of treatments (optimised based on available budgets), on-site inspections of selected segments for

proposed treatments, review of maintenance 'hot spots' and consideration of customer requests.

As a result of Council's improved asset management process (with an emphasis on asset renewal), Council has adopted a 'funding apportionment' approach (refer Table 2 below) for the funds from its recent special rate variations. This approach has provided sufficient definition to demonstrate and measure how and where the special rate funds would be spent in terms of treatment type (reseal; reseal and heavy patch; and rehabilitation) and road classification (regional and local collector) without fast tracking the final segment selection by the February application date.

The approved apportionment for the prioritisation of special rate variation funds for the 2011-12 and 2013-14 applications is proposed to be utilised again in 2014-15 and is detailed in Table 2 below.

Table 2: Apportionment of Special Rate Variation Funds

| | <i>Reseal</i> | <i>Reseal with Heavy Patch</i> | <i>Rehabilitation (Reconstruction)</i> |
|------------------------------|---------------|--------------------------------|--|
| Regional Road | 0% | 40% | 0% |
| Urban Local Collector | 12% | 12% | 0% |
| Rural Local Collector | 8% | 8% | 20% |
| Total | 20% | 60% | 20% |

This expenditure apportionment translates to the lengths of roads (in Table 3) being treated with the funds from the special rate variation.

Table 3: Length of Roads to be treated with Special Rate Variation Funds

| | <i>Reseal</i> | <i>Heavy Patch and Reseal</i> | <i>Rehabilitation (Reconstruction)</i> |
|------------------------------|---------------------|-------------------------------|--|
| Regional Road | - | approx 4km | - |
| Urban Local Collector | approx 3km | approx 1km | - |
| Rural Local Collector | approx 2.5km | approx 1km | approx 0.25km |
| Total | Approx 5.5km | Approx 6km | Approx 0.25km |

In summary, approximately 11.75km of roads per annum will be treated with the proceeds of the special rate variation.

Community's desire for continuing this additional expenditure on roads

The proposed special rate variation will enable Council to continue to undertake additional road renewal works to address the concerns of residents with the condition of the roads throughout the local government area.

In the most recent community survey undertaken by Cessnock City Council in July 2012 (Attachment 4), the satisfaction rating for "developing and maintaining the road network" was by far the lowest rating at 1.62 out of 5. This contrasted with the importance factor for this service being rated the highest at 4.78 out of 5. These results indicate that maintaining the road network is the community's highest priority.

In the June 2009 community survey (Attachment 5), road maintenance was identified by the community as being the highest priority issue for their town or village (57%) as well as for the local government area as a whole (50%). In addition, roads were identified by 35% of the community as the highest priority issue over the next 20 years.

Benefits of the Special Rate Variation

Cessnock City Council's road network is not only important to the local population but is also a significant asset to the economic sustainability of the region. Use of Council's road network has significantly increased over the last ten years with steady population growth and increases in tourist visitation to the local vineyards.

In 2011 the Cessnock local government area attracted 486,000 day visitors and 297,000 overnight visitors. It is part of the Hunter Region which, in 2012, was New South Wales' fourth most visited tourist destination for overnight visitors. The Hunter Valley is Australia's oldest wine producing region and Australia's top wine tourism destination. Events and festivals, golf, adventure tourism, the wedding market, and conferences also draw off-peak visitation and contribute to the Cessnock local government area's visitor economy. A 2010-11 assessment of the impacts of tourism in the Hunter Valley Wine Country region (predominantly in the Cessnock local government area) found that direct tourism spending (including capital investment) accounted for an estimated \$285.71m, with 1,862 jobs directly generated by tourism. The total impact from tourism, wine spending and investments was \$520.6m.

The growth in visitation is paralleled by growth in wine production that results in further use of Council's road network for transportation of product. The Hunter Valley has become a processing hub for the wine industry and its supply chain within New South Wales, in particular contract winemaking, bottling, processing, laboratory and technical work, and champagne making for the remainder of the state. The Hunter Valley's wine industry employs over 7,000 people with over \$500 million spent annually within the local area and industry. In 2009, the Hunter Valley wine region produced 26,411 tonnes of wine grapes, equivalent to about 1.9 million cases.

In addition, roads in the Cessnock local government area are being increasingly used by “through traffic” as workers commute to jobs in the upper Hunter’s mining industry. The Journey to Work Data from the 2011 Census identified 4,945 daily journeys to work in the mining industry that travelled through the Cessnock local government area.

The high proportion of non-local road users, agricultural vehicles and the transportation of grapes and finished wine products all directly impact on the Cessnock local government area road network and contribute to the degradation of Council’s regional road assets.

3.2 Alternative funding options

As noted on page 63 of Council’s 2013-17 Delivery Program (Attachment 2), Council’s operational budget is under stress due to, among other things, increasing prices for electricity and water; and the imposition of costs for emergency services and waste levies from the State Government.

These factors have resulted in Council having to improve its productivity just to continue to provide the current range and level of service provision that the community expects.

Council’s response has, in part, included recent reviews of road management and maintenance practices that have identified a number of ways to improve Council’s performance in these areas. These practices are progressively being implemented with positive results.

Council’s income from rates has needed to be increasingly used for recurrent service provision, which has meant that there has been little funding available for new initiatives or service level expansions.

Funding for the specific road renewal projects currently funded by the special rate variation is not available from other general revenue. Without the special rate variation, if Council determined to fund these road renewal works from general revenue, then it would need to reduce the range and/or quality of other services that it delivers.

Council regularly applies for grants for road improvement projects. Federal Roads to Recovery, Pathways and Blackspot funding program grants and State Regional Bridge Replacement grants have been applied for and received in recent years. Council partially matched the state funding for timber bridge replacement via loans in 2010-11.

Cessnock City Council was also successful in receiving funds for bridge replacement under the Local Infrastructure Renewal Scheme in 2013 and will consider making further applications in future rounds of this program.

The purpose of this special rate variation application is to fund additional rehabilitation and resealing of the road network throughout the local government area. These programs are maintenance related (capital renewal) and should not be

funded through loans and have limited grant opportunities. Council's loan programs and the majority of State and Federal Government grant programs are only utilised for capital works that generate new assets.

3.3 State of financial sustainability

This application is phase 1 of Council's special rate variation strategy – to make permanent the funds that have been allocated to the improvement of the road network under successive approvals since 2006-07.

Phase 2 of Council's special rate variation strategy will focus on a combination of specific projects or programs, as well as improving Council's underlying financial position.

As noted on page 41 of Council's 2013-17 Delivery Program (Attachment 2), the long term financial position of the Council remains a significant challenge over future years. While Council still adopts a balanced budget strategy, current operations continue to exert considerable pressure on Council's capacity to manage its financial position. Also, Council has a substantial financial commitment to future capital works as outlined in the Operational Plan (page 46 of Attachment 2).

Council's Long-Term Financial Plan demonstrates that, even with the approval of this special rate variation (Scenarios 1, 2 and 3), Council's financial position is not sustainable.

Council's response to addressing its financial sustainability is a review of its processes, services and revenue opportunities (including the special rate variation strategy). Scenario 4 of the Long-Term Financial Plan demonstrates that a further special rate variation (phase 2 of the strategy) will be required just to maintain service levels.

TCorp Assessment

In April 2013 Cessnock City Council received the results from the NSW Treasury Corporation's (TCorp) assessment of its financial capacity and sustainability (Attachment 6). TCorp's assessment of financial sustainability and outlook provides an overall position of the sustainability of councils when compared with each other council within NSW.

Cessnock City Council has been assessed as:

| | |
|---------------------------------------|----------|
| Financial Sustainability Rating (FSR) | Moderate |
| Outlook | Negative |

TCorp has issued definitions for the above ratings, and these are:

1) Financial Sustainability Rating (FSR) – Moderate

A local government with an adequate capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term.

While it has some record of reporting minor to moderate operating deficits the local government may also have recently reported a significant operating deficit.

It is likely able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments. The expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered.

Its capacity to manage core business risks is moderate.

2) Outlook – Negative

As a result of a foreseeable event or circumstance occurring, there is the potential for deterioration in the local government's capacity to meet its financial commitments (short and/or long term) and resulting change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.

The TCorp report defines, a council with a FSR of Moderate and an Outlook of Negative, as being in a deteriorating position or at risk of being downgraded from Moderate to Weak. As TCorp considers a FSR of lower than Moderate to be at much greater risk of being unsustainable, councils in this position need to be considering options for addressing the areas of poor performance that are contributing to their assessed FSR and Outlook.

The TCorp assessment confirms Council's long-term financial forecasting; that the continuation of Council's current spending and income patterns is not sustainable.

One part of Council's response to improving the outlook for its financial sustainability is to progress a two-phase special rate variation strategy.

This application is the first phase and, consistent with Council's Long-Term Financial Plan, seeks a special rate variation of 9.55% that remains permanently in the rate base.

In line with community feedback, the money generated from the existing (and previous) special rate variations (approximately \$1.725m in 2013-14) has been allocated to the renewal of roads throughout the local government area. Similarly, funds from this proposed special rate variation will also be allocated to road renewal.

The second phase of the special rate variation strategy is to review service levels and investigate a further special rate variation (to be phased in over four years from 2015-16) to improve the outlook for Council's financial sustainability.

Impact on Key Financial Indicators

Tables 4 and 5 below compare the impact on Council's key financial indicators without (Scenario 0) and with (Scenario 1) the proposed special rate variation.

Table 4: Key performance indicators - Scenario 0 with no special variation

| Indicator | Year ended 30/6/11 Actual | Year ended 30/6/12 Actual | Year ended 30/6/13 Actual | Year ended 30/6/14 Estimate | Year ended 30/6/15 Forecast |
|--|---------------------------------|---------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Operating Balance Ratio % | 2.67 | -13.77 | -0.07 | -5.70 | -6.57 |
| Unrestricted Current Ratio % | 1.91 | 1.69 | 1.96 | 1.65 | 1.42 |
| Rates & Annual Charges Outstanding Ratio % | 6.11 | 5.15 | 6.04 | 4.58 | 4.52 |
| Debt Service Ratio % | 3.61 | 2.98 | 2.43 | 3.20 | 3.37 |
| Asset Renewals Ratio | 90.12 | 91.24 | 92.94 | 139.92 | 96.81 |

Table 5: Key performance indicators – Scenario 1 with special variation

| Indicator | Year ended 30/6/11 Actual | Year ended 30/6/12 Actual | Year ended 30/6/13 Actual | Year ended 30/6/14 Estimate | Year ended 30/6/15 Forecast |
|--|---------------------------------|---------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Operating Balance Ratio % | 2.67 | -13.77 | -0.07 | -5.70 | -3.59 |
| Unrestricted Current Ratio % | 1.91 | 1.69 | 1.96 | 1.65 | 1.42 |
| Rates & Annual Charges Outstanding Ratio % | 6.11 | 5.15 | 6.04 | 4.58 | 4.62 |
| Debt Service Ratio % | 3.61 | 2.98 | 2.43 | 3.20 | 3.27 |
| Asset Renewal Ratio | 90.12 | 91.24 | 92.94 | 139.92 | 108.11 |

Notes to Tables 4 and 5:

Operating balance ratio is the net operating result (excluding capital items) as a percentage of operating revenue (excluding capital items).

Unrestricted current ratio is the unrestricted current assets divided by unrestricted current liabilities. "Unrestricted" means there is no restriction on the asset or liability imposed by regulation or some other externally imposed constraint. For example: restricted assets include developer contributions.

Rates and annual charges ratio is the rates and annual charges divided by operating expenses.

Debt service ratio is the net debt service cost divided by revenue from continuing operations.

Asset renewals ratio is asset renewals expenditure divided by depreciation, amortisation and impairment expenses.

A schedule of the key financial indicators for ten years is included with each Scenario in the Long-Term Financial Plan (pages 122-141 of Attachment 2).

A summary of the impacts of the special variation on Council's key financial indicators follows:

Operating Balance Ratio

The Operating Balance Ratio is the net operating result (excluding capital items) as a percentage of operating revenue (excluding capital items). If the special rate variation is approved (Scenario 1), this ratio will show a favourable increase as rates income will increase by the special rate variation thereby increasing both the operating revenue and net operating result.

Unrestricted Current Ratio

There will be no change to this ratio between the two scenarios.

Rates & Annual Charges Outstanding Ratio

The Rates and Annual Charges Outstanding Ratio is the rates and annual charges outstanding as a percentage of rates collectable. If the special rate variation is approved, this ratio is not expected to significantly change as the overall impact on rates levied is relatively minor and it is estimated that only a very small proportion of the increase will be unpaid at the end of the financial year.

Debt Service Ratio

The Debt Service Ratio is the net debt service cost (interest and principal) as a percentage of revenue from continuing operations. If the special rate variation is approved, this ratio will show a favourable decrease as the revenue from continuing operations will increase (due to additional special rate variation income). This ratio will also be affected by any future loan borrowings and existing loans reaching maturity.

Asset Renewals Ratio

The Asset Renewals Ratio is the asset renewals expenditure as a percentage of depreciation, amortisation and impairment expenses. If the special rate variation is approved, this ratio will show a favourable increase as an increase in asset renewals will occur.

3.4 Capital expenditure review

The proposed special rate variation does not require a capital expenditure review.

| | |
|---|---|
| Does the proposed special variation require you to do a capital expenditure review in accordance with DLG Circular to Councils, Circular No 10-34 dated 20 December 2010? | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
|---|---|

4 Assessment criterion 2: Community awareness and engagement

This section demonstrates that Cessnock City Council has consulted with its community on the need for, and extent of, the proposed special variation.

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

Yes.

Cessnock City Council has clearly explained to the community:

- ▼ that there is a special variation due to expire on 30 June 2014;
- ▼ that, if the special variation were not approved, there would be one-off reduction in rates in 2014-15; and
- ▼ that the expiring special variation is proposed to be replaced with a 9.55% special rate variation that remains permanently in the rate base.

4.1 The consultation strategy

On 23 October 2013 Cessnock City Council endorsed an engagement strategy that focused on informing ratepayers across the local government area of the need for, and extent of, the proposed special rate variation. A copy of the Council report is included as Attachment 7.

As noted on page 63 of Council's 2013-17 Delivery Program (Attachment 2), the community consultation on the proposed special rate variation commenced in 2012 and comprised a number of elements in order to engage with residents from across the local government area.

In July 2012, Cessnock City Council engaged Micromex to undertake community research with a representative sample of 400 residents to, among other things, assess support for the continuation of the special rate variation to retain the current level of sealed road renewal (pages 62-65 of Attachment 4).

In February 2013 Council undertook consultation on the one-year extension of its existing special rate variation for 2013-14 – comprising: newspaper advertising, media releases, information sessions and distribution of fact sheets both in hard copy and via Council's website.

Then in November 2013 Council went back to the community to consult on the permanent extension of the special rate variation from 2014-15 (that is the subject of this application).

The options that were put to the community were:

Option 1 – To seek a special rate variation of 9.55%.

This means apply to make the existing special rate variation of 6.05% permanent resulting in a continuation of the additional annual expenditure on roads across the local government area of approximately \$1.725m; and an estimated increase in rates in 2014-15 of 3.5% or approximately \$39 for the average residential ratepayer.

Option 2 – To not seek a special rate variation.

This means do not apply to make the existing special rate variation of 6.05% permanent resulting in a reduction in annual expenditure on roads across the local government area of approximately \$1.725m; and an estimated one-off reduction in rates of 2.55% or approximately \$25 for the average residential ratepayer.

The community consultation included advertisements in the Cessnock Advertiser on 6 and 20 November 2013 and in the Branxton-Greta News on 18 November 2013 (Attachment 8).

In addition, a DL-sized pamphlet was mailed out to 19,748 ratepayers with the third 2013-14 rates instalment notice outlining the special rate variation options and their impacts on ratepayers (Attachment 9).

Since November 2013 details of Council's options and their expected impacts on ratepayers have been available on Council's website, along with several fact sheets and a rates calculator. These fact sheets included:

- Background on Special Rate Variations - A fact sheet about special rate variations explaining what has happened with previous variations and the justification for the current special rate variation application (Attachment 10).
- Council Services and Community Perceptions - A fact sheet about the range of services provided by Council and results from the 2012 community research showing the level of community satisfaction with the roads in the local government area (Attachment 11).
- A fact sheet about the current condition of Council's roads (Attachment 12).
- Asset Maintenance, Renewal and Upgrade – A fact sheet describing the differences between road maintenance, road renewal and road upgrades and Council's approach to asset management (Attachment 13).

- A fact sheet providing examples of various road pavement conditions (Attachment 14).
- A rates calculator so that ratepayers could work out their indicative rate payment for 2014-15 under each option (Attachment 15).

Hard copies of these fact sheets have also been available at Council's Administration Building and at Council's libraries in Cessnock and Kurri Kurri.

In January 2014 a media release was issued to all media outlets (Attachment 16).

In addition, the integrated planning and reporting documentation was re-exhibited between 18 December 2013 and 3 February 2014 incorporating changes to ensure there was clarity regarding the special rate variation options under consideration.

4.2 Alternatives to the special variation

As part of Cessnock City Council's progression towards financial sustainability, Council is continuing to review its processes, services and revenue opportunities.

As noted on pages 41 and 60 of Council's 2013-17 Delivery Program (Attachment 2), a two-phase special rate variation strategy is one part of Council's response to improving the outlook for its financial sustainability. This application is phase one of that special rate variation strategy.

Council's operational budget is under stress due to, among other things, increasing prices for electricity and water; and the imposition of costs for emergency services and waste levies from the State Government.

These factors have resulted in Council having to improve its productivity just to continue to provide the current range and level of service provision that the community expects.

Council's response has, in part, included recent reviews of road management and maintenance practices that have identified a number of ways to improve Council's performance in these areas. These practices are progressively being implemented with positive results.

As noted on page 63 of Council's 2013-17 Delivery Program (Attachment 2), Council's operational budget is under stress due to, among other things, increasing prices for electricity and water; and the imposition of costs for emergency services and waste levies from the State Government.

These factors have resulted in Council having to improve its productivity just to continue to provide the current range and level of service provision that the community expects.

Council's response has, in part, included recent reviews of road management and maintenance practices that have identified a number of ways to improve Council's

performance in these areas. These practices are progressively being implemented with positive results.

Council's income from rates has needed to be increasingly used for recurrent service provision, which has meant that there has been little funding available for new initiatives or service level expansions.

Funding for the specific road renewal projects currently funded by the special rate variation is not available from other general revenue. Without the special rate variation, if Council determined to fund these road renewal works from general revenue, then it would need to reduce the range and/or quality of other services that it delivers.

Council regularly applies for grants for road improvement projects. Federal Roads to Recovery, Pathways and Blackspot funding program grants and State Regional Bridge Replacement grants have been applied for and received in recent years. Council partially matched the state funding for timber bridge replacement via loans in 2010-11.

Cessnock City Council was also successful in receiving funds for bridge replacement under the Local Infrastructure Renewal Scheme in 2013 and will consider making further applications in future rounds of this program.

The purpose of this special rate variation application is to fund additional rehabilitation and resealing of the road network throughout the local government area. These programs are maintenance related (capital renewal) and should not be funded through loans and have limited grant opportunities. Council's loan programs and the majority of State and Federal Government grant programs are only utilised for capital works that generate new assets.

4.3 Feedback from the community consultations

As noted on pages 62 and 64 of Council's 2013-17 Delivery Program (Attachment 2), in July 2012 Council engaged Micromex to undertake community research with a representative sample of 400 residents to, among other things, assess support for the continuation of the special rate variation to retain the current level of sealed road renewal (Attachment 4).

The research found that the satisfaction rating for "developing and maintaining the road network" was by far the lowest rating of any council service at 1.62 out of 5. This contrasted with the importance factor for this service being rated the highest at 4.78 out of 5.

The June 2009 community research (Attachment 5) found that road maintenance was the highest priority issue for residents' town or village (57%) as well as for the local government area as a whole (50%). In addition, roads were identified by 35% of the community as the highest priority issue over the next 20 years.

With regards to the proposed special rate variation, the community research undertaken in July 2012 found a moderate level of community support for the continuation of the special rate levy for sealed road renewal.

56% of residents indicated that they were very supportive/supportive of this levy remaining. With 76% of residents indicating that they were at least somewhat supportive/supportive/very supportive of this levy remaining in place.

How supportive are you of continuing the special rate variation to retain the current level of sealed road renewal?

| | Count | Column % |
|-----------------------|-------|----------|
| Very supportive | 103 | 26% |
| Supportive | 121 | 30% |
| Somewhat supportive | 81 | 20% |
| Not very supportive | 43 | 11% |
| Not at all supportive | 52 | 13% |
| Total | 400 | 100% |

| | 18-29 | 30-44 | 45-59 | 60+ | Male | Female | Overall |
|------------------|-------|-------|-------|------|------|--------|---------|
| Level of support | 3.56 | 3.35 | 3.64 | 3.31 | 3.52 | 3.38 | 3.45 |

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

Residents who were 'supportive' to 'very supportive' of the continuation of the special rate variation felt it was necessary as 'the roads require further work' (35%).

86% of residents indicated that it is at least somewhat important that Cessnock City Council is allowed to continue the special rates levy for roads.

Based on what you have been told, how important do you believe it is that Council is allowed to continue with this special rates levy for roads?

| | Count | Column % |
|----------------------|-------|----------|
| Very important | 105 | 26% |
| Important | 156 | 39% |
| Somewhat important | 84 | 21% |
| Not very important | 19 | 5% |
| Not at all important | 35 | 9% |
| Total | 400 | 100% |

| | 18-29 | 30-44 | 45-59 | 60+ | Male | Female | Overall |
|-------------------------|-------|-------|-------|------|------|--------|---------|
| Importance mean ratings | 3.64 | 3.64 | 3.82 | 3.67 | 3.77 | 3.61 | 3.69 |

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

The community research reinforced the message (from previous surveys) that the maintenance and management of roads is a high priority for the local government area.

Part of Council's response to this community feedback has been to change its asset management practices. In May 2013 Council engaged GHD to undertake an audit of Council's road construction and project management techniques to ensure best practice outcomes for the community and the quality of the road network (Attachment 17). This special rate application (to continue to undertake additional road renewal works) is also part of Council's response to this feedback.

In order to ensure as many ratepayers as possible were aware of the need for, and extent of, the proposed special rate variation, a DL-sized pamphlet was mailed out to 19,748 ratepayers with the third 2013-14 rates instalment notice outlining the special rate variation options and their impacts on ratepayers (Attachment 9).

As a result of the rates mail-out and the advertisements in the Cessnock Advertiser and Branxton-Greta News during November 2013 (Attachment 8) Council had, at the time of preparing this application, received feedback on the proposed special rate variation from seven ratepayers.

In summary, four wanted to be part of the ongoing process to provide feedback on levels of service and future rating strategies; one opposed the proposed special rate variation; one foreshadowed that they would be providing comments on the proposal; and one applauded the intention of improving local roads.

A media release issued in January 2014 resulted in the following media coverage:

- An article in the Maitland Mercury on 3 February 2014 "*Cessnock needs \$88.7m to fix roads backlog*" on page 7 (Attachment 18);
- An interview with the Mayor, Councillor Bob Pynsent, on NBN Television's evening news on 4 February 2014;
- An article in the Cessnock Advertiser on 12 February 2014 "*Council considers another rate rise for roadworks*" on page 1 (Attachment 19); and
- An article in the Newcastle Herald on 15 February 2014 "*Council in rates grab – Demand for roads funds*" on page 24 (Attachment 20).

In addition, the integrated planning and reporting documentation was re-exhibited between 18 December 2013 and 3 February 2014 incorporating changes to ensure there was clarity regarding the special rate variation options under consideration.

The outcomes of the community consultation were reported to Council at its meeting of 19 February 2014 (Attachment 21).

4.4 Considering the impact on ratepayers

As noted on page 65 of Council's 2013-17 Delivery Program (Attachment 2), the net impact on ratepayers of the proposed special rate variation is 3.5%.

The financial impact of the special rate variation on ratepayers will, in the most part, be minimal as Council already has a special rate variation in place.

Council ensured the community was aware of the impact of the proposed special rate variation via its advertisements, a mail-out to 19,748 ratepayers and information on its website.

For the typical residential ratepayer the impact in 2014-15 is estimated to be a continuation of the additional annual expenditure on roads across the local government area of approximately \$1.725m; and an estimated increase in rates in 2014-15 of 3.5% or approximately \$39 for the typical residential ratepayer (based on a land value of \$143,163) as illustrated in Table 6 below.

Table 6: Impact on ratepayer of special rate variation options.

| | 2013-14 | 2014-15 Estimate Scenario 0 No SRV | 2014-15 Estimate Scenario 1 SRV of 9.55% |
|--|-------------------|--|--|
| Ordinary Rates | \$1,075.00 | \$1,050.70 | \$1,114.81 |
| Domestic Waste Charges | \$520.00 | \$520.00 | \$520.00 |
| HCRMA Levy | \$15.60 | \$15.60 | \$15.60 |
| Stormwater Levy | \$25.00 | \$25.00 | \$25.00 |
| Total Amount | \$1,635.60 | \$1,611.30 | \$1,675.41 |
| Total increase/decrease | | (\$24.30) | \$39.81 |
| % change in rates | | (2.55%) | 3.50% |
| % change across all rates & charges | | (1.49%) | 2.43% |

As noted on page 65 of Council's 2013-17 Delivery Program (Attachment 2), Council intends to apply the proposed special rate variation across the various rate categories, with no differential increase being applied to individual rate categories.

Cessnock City Council made the community aware of the impact of the proposed special rate variation through a number of means, including:

- Advertisements in the Cessnock Advertiser and Branxton-Greta News in November 2013 (Attachment 8);
- a DL-sized pamphlet being mailed out to 19,748 ratepayers with the third 2013-14 rates instalment notice (Attachment 9);
- Information on Council's website; and
- A rates calculator on Council's website that enabled ratepayers to work out their indicative rate payment for 2014-15 under each option (Attachment 15).

4.5 Considering the community's capacity and willingness to pay

The impact of the special rate variation on ratepayers will, in the most part, be minimal as Council already has a special rate variation in place.

Council has approximately 24,100 rateable assessments and the majority of those (around 87%) are in a residential rating category. The typical residential ratepayer is expected to pay an additional \$39.81 per annum.

Whilst Council's Socio-economic index for areas (SEIFA) of 922 is on the low side, it is variable within the local government area. Notwithstanding, in terms of capacity to pay, this index does not appear to have adversely impacted on the level of outstanding rates.

Council's level of outstanding rate debt at the end of the financial year has, for the past five years, remained relatively stable between 5-6% of the total rates collectable amount. It is expected that the proposed special rate variation will not adversely impact this ratio as the current level of rates has proven affordable for the community.

In response to the mail-out to 19,748 ratepayers and advertisements in the Cessnock Advertiser and Branxton-Greta News, there was only one instance of feedback opposing the proposed special rate variation. This has indicated a general willingness to continue to pay the special rate variation in order to continue additional works to improve the road network across the local government area.

5 Assessment criterion 3: Impact on ratepayers

This section provides an explanation of Cessnock City Council's proposed rating structure and the impact of the proposed special rate variation.

In addition, Cessnock City Council has completed the worksheets in Part A of the application to provide the information and calculations underpinning the proposed rating structure, the impact of the special variation and average rate increases.

5.1 Impact on rates

Cessnock City Council does not propose altering its existing rating structure should this special rate variation application be successful, apart from minor yield movements resulting from property categorisations and valuation adjustments.

For 2014-15 Council is proposing an increase in the base amounts across all categories to reflect the increased costs of providing services. The last changes to base amounts were made in 2009.

Council has had the current special rate variation in place for one year (along with a similar special rate variation for the previous seven years). In applying to make the variation permanent, Council sees no benefit to the community in changing the rating structure to redistribute the rate increase. Any comprehensive review of the rating structure would be undertaken as a separate consultative process involving Councillors and the community.

Cessnock City Council considers that, as the variation is intended to be utilised for road maintenance and renewal across the whole local government area and will benefit all road users, the cost should be distributed proportionately to all ratepayers. The proposed special rate variation increase has been applied across all rating categories.

The proposed rating structure and expected rate yield for each category are shown in Tables 7 and 8 below for both scenarios: without the special rate variation and with the special rate variation. The tables detail the number of properties in each category, the amount of base rate applicable to each category, the ad-valorem charge to be calculated from the individual land values of affected properties and the estimated total yield from each rating category. The total estimated yields are \$30,613,161 from Scenario 0 (no special rate variation) and \$32,774,925 from Scenario 1 (with the proposed special rate variation).

Table 7: Proposed Rates Payable – Scenario 0 – No special rate variation

| Proposed Rates Payable - Year 2014-15 | | | | | |
|--|------------------|----------------------|------------------|------------|----------------------|
| Scenario 0 - No Special Rate Variation | | | | | |
| Rating Category | No of Properties | Land Value (\$) | Base Amount (\$) | Ad-Valorem | Estimated Yield (\$) |
| Residential | 19,250 | 2,479,505,856 | 420.00 | 0.436030 | 18,896,401 |
| Residential - Rural | 1,640 | 516,186,940 | 420.00 | 0.404264 | 2,775,558 |
| Farmland | 876 | 510,833,300 | 420.00 | 0.318403 | 1,994,430 |
| Farmland - Mixed Use | 26 | 19,543,300 | 530.00 | 0.786223 | 167,434 |
| Farmland - Low Intensity | 792 | 181,280,092 | 420.00 | 0.362969 | 990,631 |
| Farmland - Business Rural | 37 | 21,523,000 | 530.00 | 0.786223 | 188,829 |
| Business | 1,500 | 244,692,455 | 530.00 | 1.594511 | 4,696,649 |
| Mining | 6 | 22,899,350 | 1,000.00 | 3.918139 | 903,228 |
| Total | 24,127 | 3,996,464,293 | | | 30,613,161 |

Table 8: Proposed Rates Payable – Scenario 1 – With proposed special rate variation

| Proposed Rates Payable - Year 2014-15 | | | | | |
|---|------------------|----------------------|------------------|------------|----------------------|
| Scenario 1 - With proposed Special Rate Variation | | | | | |
| Rating Category | No of Properties | Land Value (\$) | Base Amount (\$) | Ad-Valorem | Estimated Yield (\$) |
| Residential | 19,250 | 2,479,505,856 | 420.00 | 0.487383 | 20,169,689 |
| Residential – Rural | 1,640 | 516,186,940 | 420.00 | 0.440548 | 2,962,853 |
| Farmland | 876 | 510,833,300 | 420.00 | 0.346331 | 2,137,093 |
| Farmland - Mixed Use | 26 | 19,543,300 | 530.00 | 0.868837 | 183,579 |
| Farmland - Low Intensity | 792 | 181,280,092 | 420.00 | 0.405996 | 1,068,630 |
| Farmland - Business Rural | 37 | 21,523,000 | 530.00 | 0.868837 | 206,610 |
| Business | 1,500 | 244,692,455 | 530.00 | 1.738055 | 5,047,888 |
| Mining | 6 | 22,899,350 | 1,000.00 | 4.334546 | 998,583 |
| Total | 24,127 | 3,996,464,293 | | | 32,774,925 |

During 2013-14 Cessnock City Council was required to process a significant land valuation reduction within the business category, due to a successful valuation objection. This reduced the land value on one property by \$5.9m and resulted in lost income to Council of approximately \$97,000 in 2013-14. The recoupment of this lost income has been included in the estimates for 2014-15.

Cessnock City Council intends to apply the proposed special rate variation across the various rate categories, with no differential increase being applied to individual rate categories.

The impact on the various rate categories and sub-categories, and the number of properties affected within each (by rateable assessments) is shown in the tables below. Council has approximately 24,100 rateable assessments and the summaries below account for approximately 95% of these properties.

In the analysis of the rating categories and sub-categories that follows: the average rates payable is based on calculated average land values within each of the ranges; and Scenario 0 is the average rate payable without the special rate variation, while Scenario 1 shows the average rate payable with the special rate variation.

Average Rates Payable – Residential Rating Category

In the residential rating category, Council has approximately 19,300 rateable properties which represents 80% of the total properties. Table 9 shows that the majority (approximately 14,400) of these properties have a land value of between \$100,000 and \$200,000 and will have an average increase in rates under Scenario 1 of \$39 per annum. Of the remaining properties in this category, there are approximately 3,500 properties with a land value less than \$100,000 who will pay, on average, \$26 more per annum under Scenario 1. While the approximately 1,000 properties valued between \$200,000 and \$300,000 will have an average rate increase of \$63 per annum.

Table 9: Average Rates Payable – Residential Rating Category

| Average Rates Payable Residential Rating Category (19,250 properties) | | | | | |
|--|-------------------|--------------------|--------------------|-------------------|----------------|
| Land Value Range | No. of Properties | Average Land Value | Current Year Rates | No SRV Scenario 0 | SRV Scenario 1 |
| <\$100,000 | 3,512 | \$71,453 | \$736 | \$725 | \$762 |
| \$100,000 - \$200,000 | 14,416 | \$128,409 | \$1,006 | \$980 | \$1,045 |
| \$200,000 - \$300,000 | 1,019 | \$232,089 | \$1,488 | \$1,432 | \$1,551 |

Average Rates Payable – Rural Residential Rating Sub-Category

There are approximately 1,600 rural residential properties in the local government area which represent 7% of all properties. Table 10 shows that of these rural residential properties, there are approximately 700 properties with a land value of between \$200,000 and \$300,000 and the average increase in rates under Scenario 1 is \$57 per annum. Additionally, there are approximately 600 properties with a land value in the range \$300,000 to \$400,000 that will, on average, pay \$73 more per annum under Scenario 1 than what they are currently paying.

Table 10: Average Rates Payable - Rural Residential Rating Sub-Category

| Average Rates Payable Rural Residential Rating Sub-Category (1,640 properties) | | | | | |
|---|-------------------|--------------------|--------------------|-------------------|----------------|
| Land Value Range | No. of Properties | Average Land Value | Current Year Rates | No SRV Scenario 0 | SRV Scenario 1 |
| \$200,000 - \$300,000 | 684 | \$253,129 | \$1,478 | \$1,443 | \$1,535 |
| \$300,000 - \$400,000 | 638 | \$342,582 | \$1,856 | \$1,804 | \$1,929 |

Average Rates Payable – Business Rating Category

Council rates approximately 1,500 business properties which represent 6% of all properties. Table 11 shows that of these properties, there are approximately 800 properties with a land value of less than \$100,000 and the average increase in rates under Scenario 1 is \$32 per annum. There are another approximately 400 properties with a land value between \$100,000 and \$200,000 who will, on average, pay approximately \$135 more per annum under Scenario 1 than what they are currently paying.

Table 11: Average Rates Payable – Business Rating Category

| Average Rates Payable Business Rating Category (1,500 properties) | | | | | |
|--|-------------------|--------------------|--------------------|-------------------|----------------|
| Land Value Range | No. of Properties | Average Land Value | Current Year Rates | No SRV Scenario 0 | SRV Scenario 1 |
| <\$100,000 | 795 | \$25,857 | \$947 | \$942 | \$979 |
| \$100,000 - \$200,000 | 359 | \$146,740 | \$2,945 | \$2,870 | \$3,080 |

Average Rates Payable – Farmland Rating Category

Council rates approximately 900 farmland properties which represent 4% of all properties. Table 12 shows that of the farmland properties, there are approximately 500 properties with a land value of between \$200,000 and \$500,000 and the average increase in rates under Scenario 1 is \$70 per annum. Additionally, there are approximately 300 properties with a land value of between \$500,000 and \$1,000,000 who will, on average, pay \$116 more per annum under Scenario 1.

Table 12: Average Rates Payable – Farmland Rating Category

| Average Rates Payable Farmland Rating Category (876 properties) | | | | | |
|--|-------------------|--------------------|--------------------|-------------------|----------------|
| Land Value Range | No. of Properties | Average Land Value | Current Year Rates | No SRV Scenario 0 | SRV Scenario 1 |
| \$200,000 - \$500,000 | 495 | \$385,485 | \$1,684 | \$1,647 | \$1,754 |
| \$500,000 - \$1,000,000 | 283 | \$678,460 | \$2,652 | \$2,579 | \$2,768 |

Average Rates Payable – Farmland Low Intensity Rating Sub-Category

In the farmland low intensity rating category, Council has approximately 800 farmland properties which represent 3% of all properties. Table 13 shows that of the farmland low intensity properties, there are approximately 600 properties with a land value of between \$100,000 and \$300,000 and the average increase in rates under Scenario 1 is \$62 per annum. Additionally, there are approximately 100 properties with a land value of between \$300,000 and \$500,000 who will, on average, pay \$88 more per annum under Scenario 1.

Table 13: Average Rates Payable – Farmland Low Intensity Rating Sub-Category

| Average Rates Payable Farmland Low Intensity Rating Sub-Category (792 properties) | | | | | |
|--|-------------------|--------------------|--------------------|-------------------|----------------|
| Land Value Range | No. of Properties | Average Land Value | Current Year Rates | No SRV Scenario 0 | SRV Scenario 1 |
| \$100,000 - \$300,000 | 627 | \$222,022 | \$1,259 | \$1,226 | \$1,321 |
| \$300,000 - \$500,000 | 120 | \$328,775 | \$1,667 | \$1,613 | \$1,755 |

5.1.1 Minimum Rates

Cessnock City Council does not have minimum rates.

| | |
|--------------------------------------|---|
| Does the council have minimum rates? | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
|--------------------------------------|---|

5.2 Affordability and community capacity to pay

The impact of the special rate variation on ratepayers will, in the most part, be minimal as Council has had a similar special rate variation in place for a number of years.

Council has approximately 24,100 rateable assessments and the majority of those (around 80%) are in the residential rate category. The typical residential ratepayer is expected to pay an additional \$39.81 per annum.

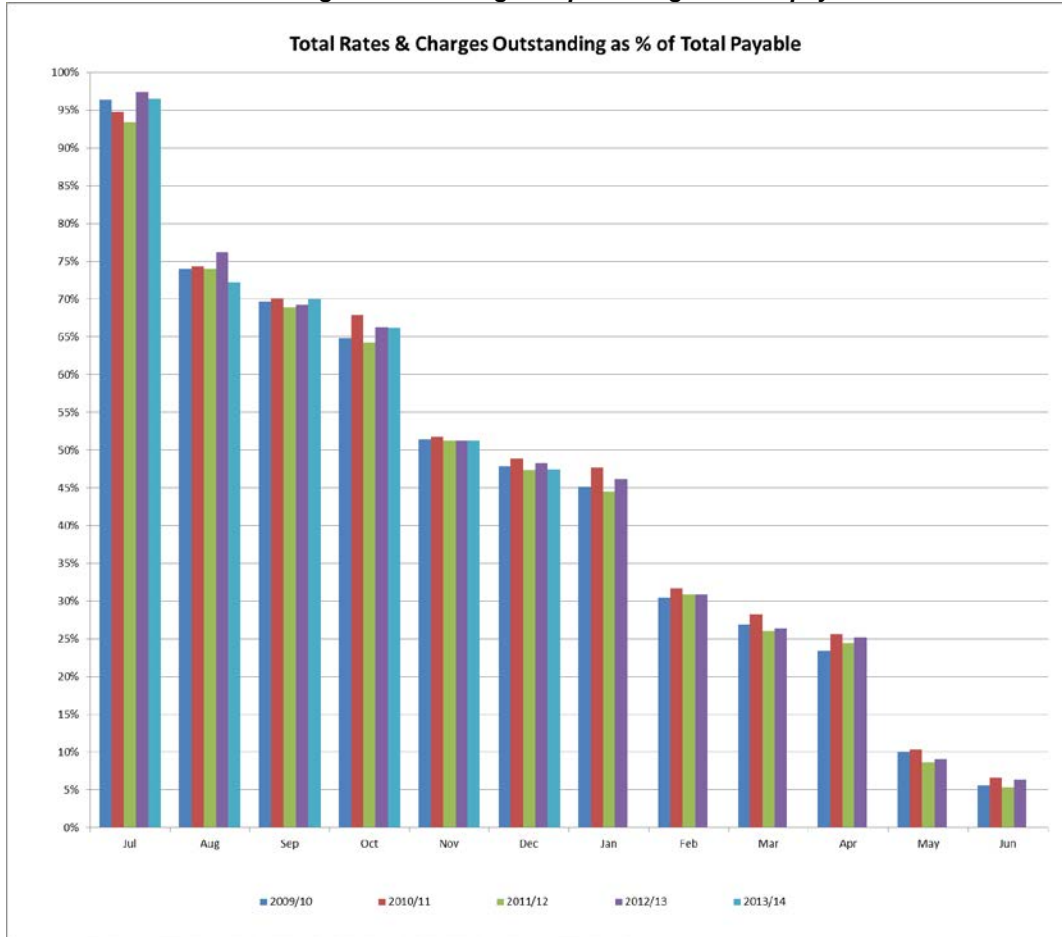
Whilst Council’s Socio-economic index for areas (SEIFA) of 922 is on the low side, it is variable within the local government area. Notwithstanding, in terms of capacity to pay, this index does not appear to have adversely impacted on the level of outstanding rates.

Council’s level of outstanding rate debt at the end of the financial year has, for the past five years, remained relatively stable between 5-6% of the total rates collectable amount. It is expected that the proposed special rate variation will not adversely impact this ratio as the current level of rates has proven affordable for the community.

In response to the mail-out to 19,748 ratepayers and advertisements in the Cessnock Advertiser and Branxton-Greta News, there was only one instance of feedback opposing the proposed special rate variation. This has indicated a general willingness to continue to pay the special rate variation in order to continue additional works to improve the road network across the local government area.

Chart 1 below shows the percentage of rates outstanding in relation to the total amount payable on a monthly basis for the past five years (including 2013-14).

Chart 1: Total Rates & Charges Outstanding as a percentage of total payable



5.3 Other factors in considering reasonable impact

5.3.1 Addressing hardship

| | |
|---|---|
| Does the council have a Hardship Policy? | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> |
| If Yes, is it identified in the council's IP&R documents? | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| Does the council propose to introduce any measures to limit the impact of the proposed special variation on various groups? | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |

Cessnock City Council has a number of existing policies in place to reduce the impact of rates and charges on vulnerable groups. These policies have been in place for a number of years and are used appropriately. The individual policies are discussed below.

Council has a long standing voluntary pension rebate policy (*Granting of Rebates on Pensioner Rates*) (Attachment 22) in addition to the mandatory government pensioner rebate. Under this policy, eligible pensioners receive a discount of approximately 2% of the ordinary rate. This rebate is applied in addition to the mandatory calculation which is capped at \$250. The additional rebate is automatically granted at the time the mandatory pensioner rebate is calculated. The average annual cost to Council of providing this additional voluntary rebate to pensioners is \$120,000.

Council officers have delegated authority as per legislative provisions and Council's policy *Waiver Interest on Rates* (Attachment 23) to waive interest charges for vulnerable persons who are suffering financial hardships (such as pensioners and ratepayers on payment arrangements). This policy and its provisions have been utilised on a number of occasions over the last 12–18 months whereby significant amounts of interest have been waived. Requests are assessed on a case-by-case basis depending upon the individual circumstances.

Cessnock City Council officers also have delegated authority to limit the impacts associated with hardships caused by general valuation increases. Where necessary these delegations are used to assist any adversely impacted ratepayers.

Funding is provided to community groups under Council policy *Rate Subsidies to Community Organisations* (Attachment 24) whereby 50% of the general rate levied is rebated under Section 356 of the Local Government Act. Every year, the automatic rebate is granted to a number of community organisations. In 2013-14 Council granted this rebate to twenty-one community organisations at a cost of approximately \$27,000.

To further assist Council's residential ratepayers, a waste voucher system has been in operation for a number of years. The system comprises the issue of four vouchers to all ratepayers receiving a domestic waste service to allow free entry to Council's landfill site for waste disposal. Council intends to continue to provide this service into the future.

6 Assessment criterion 4: Assumptions in Delivery Program and LTFP

This section outlines the service delivery and budgeting assumptions underpinning Cessnock City Council's Delivery Program and Long Term Financial Plan.

6.1 Delivery Program assumptions

Community Priorities

Council's 2013-17 Delivery Program (Attachment 2) is structured around the five desired outcomes and sixteen objectives identified in the community strategic plan, *Cessnock 2023* (Attachment 1).

Actions to support the objective of *improving the road network* have been incorporated in Cessnock City Council's 2013-17 Delivery Program (page 31 of Attachment 2) via the Operational Plan and Capital Works Program.

The focus on improving the road network was reinforced as a priority in the community research undertaken by Cessnock City Council in July 2012 (Attachment 4). The satisfaction rating for "developing and maintaining the road network" was by far the lowest rating at 1.62 out of 5. This contrasted with the importance factor for this service being rated the highest at 4.78 out of 5. These results indicate that maintaining the road network is the community's highest priority.

The priority for road network improvement was also supported by the community research carried out in June 2009 (Attachment 5). Road maintenance was seen by the community as being the highest priority issue for their town or village (57%) as well as for the local government area as a whole (50%).

Asset Management & Sustainability

Cessnock City Council's Capital Works Program (adopted with the 2013-17 Delivery Program) is underpinned by Council's Asset Management System (comprising an Asset Management Policy, Asset Management Strategy and Draft Asset Management Plans).

Council's Asset Management System has been implemented in accordance with the integrated planning and reporting framework and includes tools and processes that facilitate the selection and prioritisation of works in an objective, whole-of-life, and optimised manner that is repeatable and auditable.

Council's Asset Management Strategy (pages 84-104 of Attachment 2) includes details on the asset management improvement project and reflects recent improvements in asset management practice.

A key outcome of Cessnock City Council's Asset Management Implementation Project has been to re-focus all available capital works funding on the renewal of existing infrastructure on a priority needs basis. This approach is being reflected in all components of the Asset Management System in order to meet the community's expectations and improve financial sustainability.

The 2013-14 Capital Works Program (and future Capital Works Programs) prioritise the available capital work funds from all sources on the renewal of existing infrastructure. The creation of new infrastructure has been limited, in so far as is possible, to grant-funded and developer contribution funded projects (including any Council obligations or apportionments) and only urgent or risk management-related Council funded upgrades of existing infrastructure have been included.

Addressing the Backlog

Special Schedule 7 in Cessnock City Council's 2012-13 Financial Reports illustrates Council's current road infrastructure backlog i.e. the "estimated cost to bring assets up to a satisfactory condition" as \$88.7m. This figure is provided through Council's Pavement Management System and represents the renewal backlog based on known asset condition and defined treatment intervention levels.

The focus on asset renewal, along with the additional funds from the current (and previous) special rate variations, has had an impact on the overall network condition and this will, in turn, impact Council's backlog.

In addition to the backlog detailed in the Special Schedule 7, there is an additional backlog in terms of road upgrade in line with adopted 'desirable road attributes' relating to pavement width (lane widening and shoulder restoration) and sealing of gravel roads (initial seal). Widening of any road is currently only undertaken when the road requires rehabilitation or reconstruction as it is cost effective and opportune to do so at that point. The sealing of gravel roads currently only occurs if related to a development or is part of a risk management solution and is often funded through specific traffic safety grants. While these backlogs exist, they are, in the main, related to a desirable standard and are not the focus of this special rate variation application or a priority for the allocation of Council's capital works funds.

This proposed special rate variation application seeks to maintain the existing efforts to improve the road network with the provision of additional funds for the renewal of roads across the local government area.

As noted in Council's 2013-17 Delivery Program (Attachment 2), Council is pursuing a special rate variation strategy as part of its comprehensive efforts to improve its long term financial sustainability.

6.2 Long Term Financial Plan assumptions

Cessnock City Council's adopted Long Term Financial Plan (pages 105-142 of Attachment 2) has been prepared based on Council's historical expenditure patterns.

The base case scenario (Scenario 0) in the adopted Long Term Financial Plan has been developed with no special rate variation being applied and a corresponding decrease in expenditure on roads infrastructure.

This proposed special rate variation (Scenario 1) has been structured on the same assumptions as the base case, with the exception of a special rate variation of 9.55% that remains permanently in the rate base. It includes asset renewal expenditure funded from the proposed special rate variation.

While Scenario 4, in the Long-Term Financial Plan, illustrates a further special rate variation phased in over four years from 2015-16.

The Scenarios in the Long-Term Financial Plan includes the assumptions in Table 14 which are, in the main, based on historical trends:

Table 14: Long-Term Financial Plan Scenario Assumptions

| Assumptions | Scenario 0 | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 4 |
|-----------------------------------|------------|------------|------------|------------|------------|
| Rate increase 2013-14 | 3.4% | 3.4% | 3.4% | 3.4% | 3.4% |
| Rate increase 2014-15 | 3.5% | 9.55% | 9.55% | 9.55% | 9.55% |
| Rate increase 2015-16 to 2018-19 | 3.5% | 3.5% | 3.5% | 3.5% | 9.8% |
| Rate increases 2019-20 and beyond | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| Rates assessment growth | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| Other revenue growth | 0.8%-1.3% | 0.8%-1.3% | 0.8%-1.3% | 0.8%-1.3% | 0.8%-1.3% |
| Employee costs growth | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Other costs growth | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |

It should be noted that the Long-Term Financial Plan forecasts do not contain unfunded contingent liabilities in excess of \$90m that were identified in Council's 2013-17 Delivery Program (page 46 of Attachment 2).

7 Assessment criterion 5: Productivity improvements and cost containment strategies

As part of Cessnock City Council's progression towards financial sustainability, Council is continuing to review its processes, services and revenue opportunities.

As noted on pages 41 and 60 of Council's 2013-17 Delivery Program (Attachment 2), a two-phase special rate variation strategy is one part of Council's response to improving the outlook for its financial sustainability and this application is phase one of that special rate variation strategy.

While Cessnock City Council has, over the past several years, undertaken a significant productivity improvement program, phase two of the special rate variation strategy will sharpen the focus on ways to "do more with less".

Details of Council's productivity improvements and cost containment strategies are outlined below:

Biodiversity Strategy Collaboration

Cessnock City Council's commitment to the development of a Biodiversity Strategy in collaboration with the NSW Government identified a number of data gaps (primarily relating to vegetation mapping across the southern and eastern two-thirds of the local government area). A substantial cost saving (in the order of \$85,000) was made when Council instigated a partnership with the Federal Government to have the work undertaken as part of the strategic assessment process for the Lower Hunter. In addition, the provision of crucial information for Council's strategic land use planning processes was also realised through this partnership. The Federal Government provided the following reports – all of which Council would have been required to undertake varying elements of:

- Vegetation mapping
- World Heritage Values study
- Grey Headed Flying Fox Regional Strategy
- Koala Habitat mapping
- Strategic Agricultural Lands mapping
- Endangered Communities mapping
- Swift Parrot and Regent Honeyeater habitat assessment and mapping
- Resilience to Natural Hazards
- Proximity to Open Space mapping

It is estimated that this partnership has saved Council approximately \$750,000.

GST Review

A review of the goods and services tax (GST) treatment of past property sales identified up to \$200,000 of funds that could potentially be recouped. The final result was a refund from the Australian Taxation Office of approximately \$120,000.

Work Health Safety Management System

Cessnock City Council has commenced the roll-out of a Work Health & Safety Management System throughout the organisation. This has contributed to an improvement in employee work health and safety, as well as the additional benefit of achieving savings on Council's workers compensation premiums from reduced claims costs.

As a result of this system, in 2011-12 Council received a refund of \$148,978 on premiums paid and in 2012-13 Council received a refund of \$261,632 on premiums paid.

Other savings in insurance premiums include:

- Property insurance savings of \$36,000 in 2011-12 and \$22,000 in 2012-13;
- Public Liability savings of \$16,500 in 2012-13; and
- Motor insurance savings of \$13,000 in 2012-13.

Efficient Deployment of Resources - Asset Management

One of the most significant roles Council undertakes is the management of large portfolio of infrastructure assets (with a value of \$815m).

To ensure appropriate deployment of resources, Council has adopted a strategic approach and developed a suite of asset management plans (live documents) supported by an overarching Asset Management Policy and Strategy.

The objective of the Asset Management Strategy is to develop actions aimed at enabling Council to improve its asset management capability and practices to support Council's Asset Management Policy and guide the development of Asset Management Plans. This Strategy and the Asset Management Plans also provide Council with detailed information to assist with its service delivery planning, and optimised, informed decision making. Within the constrained financial resources available and in line with maximising long term financial sustainability, a recent external review of Council's Asset Management practices by consultants Morrison Low supported the prioritisation of funding for the renewal of existing assets over the creation (or expansion) of new assets.

Cessnock City Council has undertaken a maturity assessment for its asset management capability and the results are summarised in Chart 2 below (and discussed in more detail in the Asset Management Strategy in Attachment 2).

Council’s current maturity level is shown by the extent of the blue line against each competency. The maturity gap to be overcome for Council to achieve a core level of financial and asset management competency is defined by the ‘Good Practice Gap’ in yellow. The ‘Excellence Gap’ defines the ultimate target competency and future goal.

Cessnock City Council is well on the way to achieving its target of ‘Core Maturity’ by mid 2014, which provides a high level of assurance that the asset management task is effectively undertaken and resources will be appropriately and effectively deployed.

The long term impact of efficient asset management is potentially in the multi-millions of dollars.

Chart 2: Asset Maturity Assessment



Establishment of the Capital Works Program Project Control Group

The management and coordination of the capital works program, from project identification and prioritisation, through design and estimation, to completion and project finalisation is an area where substantial budget over-runs or inefficient allocation of resources can occur if tight controls are not in place. To address this very substantial risk area, Council has established a Project Control Group (PCG) for the Capital Works Program as a whole, and established project-specific PCGs for major projects within the program.

The role of the Project Control Group, which meets on a monthly basis, is to provide oversight of the capital works program to ensure risk is managed, records kept, quality ensured, and outcomes reviewed. A formal documented process, including standardised forms, has been established to progress the work of this group.

The framework of this group is under continual review and improvement and, in the less than two financial years of operation, Council's project control and coordination has improved dramatically and the risk of project over-runs has been significantly reduced.

Internal Audit

In mid-2012 Cessnock City Council appointed a dedicated resource to the internal audit role to assist with oversight and advice on process, policy, protocols and performance management practice.

The Internal Auditor is responsible for defining systems and processes, measuring outcomes and understanding how each employee contributes to facilitating Council's core business processes.

Internal Audit's productivity initiatives so far, have included:

- Conducting an organisational assessment to establish a baseline for future audit and assessment using the Division of Local Government's (DLG's) Promoting Better Practice Program guide;
- Developing a Strategic Audit Plan 2013 – 2016 and Annual Internal Audit Programs;
- Coordinating risk management training and workshops for Council's senior leadership and managers; and
- Commencing development of an Internal Audit Standard Operating Procedures Manual.

In addition, Council has established an Audit Committee with a unique oversight role in providing independent assurance and assistance to Council on risk management, internal control, governance and external accountability procedures.

Kerbside Recycling Contract Joint Tender

In July 2012 Council adopted a new kerbside recycling contract. The new contract included Singleton Shire Council joining Cessnock, Maitland and Lake Macquarie Councils in Hunter Resource Recovery (HRR) to increase the number of services by approximately 8,000.

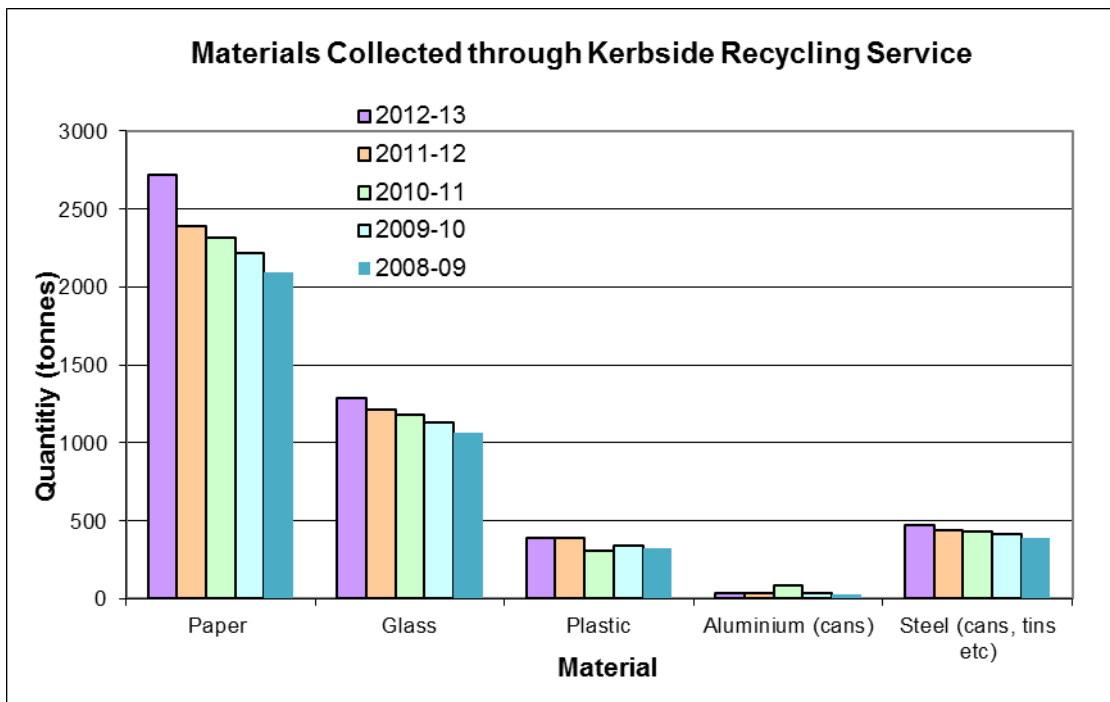
The joint tender process achieved the following outcomes:

- cost savings achieved through economies of scale in the order of \$26 per service (approx. \$500,000 p.a.);
- increased flexibility with 140, 240, 360, 660 & 1100 litre bin options;

- a \$50,000 contribution toward e-waste processing for the life of the contract;
- One 30m³ container at each landfill site for e-waste collection; and
- Contractor funded transfer of the e-waste containers.

The increasing amount of materials collected through the kerbside recycling service is illustrated in Chart 3 below.

Chart 3: Materials collected through kerbside recycling service



Electricity Consumption in Council Buildings

Cessnock City Council has been undertaking energy efficiency programs for several years.

A summary of actions taken, estimated savings and efficiencies in Council buildings is provided in the Table 15 below.

Table 15: Energy efficiency actions

| Facility | Actions Undertaken |
|-----------------------------------|---|
| Kurri Kurri Aquatic Centre | <ul style="list-style-type: none"> • Installed variable speed drives to filtration pumps • Replaced T8 fluorescent lighting with high output T5. • Replaced halogen down lights and exit signs • Installed timer to hot water system in Plant Room • Installed power factor correction <p>Total estimated cost of \$41,780 <i>Total estimated annual savings of \$23,897 and 96,468 kWh</i></p> |

| | |
|--|--|
| Council Administration Building | <ul style="list-style-type: none"> • Installed timer switches and motion sensors in low use rooms • Installed triphosphor tubes. • Linked the lighting, boiling hot water units and air conditioners to the existing electronic security system ensuring that systems are not left operating when the building is not occupied. • Enabled energy star computers and printers. • Carried out minor repairs and adjustments to the main air handling unit. • Provided a shade structure over the bank of air conditioning units located on the roof (by reducing exposure to extremes of temperature, the units are able to run more evenly thus minimising down time due to defrosting or overheating). |
| Works Depot | <ul style="list-style-type: none"> • Solar panels have been installed on the workshop roof (see below). |
| Cessnock Library | <ul style="list-style-type: none"> • Lighting refit completed in January 2012. |

Table 16 below illustrates the savings in electricity consumption that have been achieved.

Table 16: Electricity Indicators

| Year | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
|--|----------------|----------------|----------------|----------------|
| Total electricity consumption in LGA (MWh) | 281,916 | 281,562 | 276,422 | 268,183 |
| Total Council electricity consumption (MWh) | NA | 4,800 | 4,816 | 4,699 |
| Total solar power generated in LGA (MWh) | 13 | 121 | 1,484 | 3,058 |
| Total Council Greenpower purchased (MWh) | 0 | 480 | 482 | 470 |

Solar Savings

Cessnock City Council has installed a solar generation system at its Works Depot (Council's third highest electricity consuming facility). The installation comprises 80 x 250 watt panels producing 2,328 kWh/month, with a value of around \$33,000 fully installed.

The Depot's average power usage per month is 14,720 kWh costing approximately \$4,000. The solar system is designed to reduce electricity costs by around \$7,200 per year and has a payback period of less than six years.

Council has also been investigating other areas of electricity usage, including:

- Free standing solar light poles. Council has committed to consider alternatives at times of major repair, replacement or new installation;

- Regional action in relation to energy-efficient street lighting; and
- Participation in a competitive reverse auction approach for all of Council's electricity supply accounts.

Competitive Power Supply (reverse auction)

Cessnock City Council has adopted a reverse auction approach for competitive power supply resulting in savings of approximately \$50,000 during the period 2009-12. A further negotiation for 2013-15 has resulted in an estimated saving of \$63,000.

Energy Action

As part of Cessnock City Council's involvement with reverse tenders for electricity supply, Council has subscribed to the Activ8 service which regularly checks Council electricity bills for errors such as incorrect tariffs and overcharging. Recently, this service recommended a tariff change that resulted in a saving of \$1,766 per year for the Cessnock Library.

Carbon Footprint

In 2010 Cessnock City Council engaged consultants to report on Council's 2008-09 greenhouse gas emissions. As Table 17 below shows, 84% (28,287tCO₂-e) of Council's carbon footprint is attributable to methane emissions from its landfill.

Table 17: Summary of Council's Carbon Emissions 2008-09

| Emission Source | Emissions tCO₂-e | % Total Emissions |
|--|--|------------------------------|
| Landfill emissions | 28,287 | 84 |
| Transport- based emissions | 1,729 | 5 |
| Stationary combustion-based emissions | 312 | 1 |
| Emissions from main natural gas | 90 | <1 |
| Fugitive emissions from refrigerants | 28 | <1 |
| Electricity use | 3,385 | 10 |
| Total Emissions | 33,831 | |

As a result Council entered into a contract for the installation of a landfill gas capture system, with destruction of methane through flaring to substantially reduce Council's carbon emissions.

The flare greenhouse gas at landfill site has reduced Council's carbon liability by approximately 150,000 cubic metres per month.

Access to Development Assessment Information

Cessnock City Council has reviewed and simplified the forms associated with the development assessment and the lodgement process, including:

- Introduction of a submission matrix to assist with identifying the information that is required to be submitted in conjunction with a development application, and the required content of the information. The submission matrix has improved development processing times by reducing the number of times Council has to request additional information after the lodgement of an application;
- Introduction of development related fact sheets with information relating to common development enquiries;
- Introduction of a new process to make it easier for a customer to obtain house numbers, with a view to streamlining this function in accordance with the recently announced Land and Property Information requirements;
- A review of the existing Pre-DA process that has improved the quality of information and timeliness of the service;
- Introduction of a full-time duty planner to respond to enquiries during business hours and to minimise waiting times; and
- A review of the application lodgement process to improve the customer experience at the front counter when lodging an application.

DA Processing Times Improvements

Cessnock City Council has reviewed its development processes which has improved the average DA processing times reducing from 93 days in 2010-11 to 75 days in 2011-12 as shown in Table 18 below.

Table 18: Median gross and net determination days for Lower Hunter councils

| Mean Gross and net determination days for Lower Hunter Council's | | | | | | | | | | | | |
|--|-----------------------|---------------------|----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
| Council | Mean gross days 06/07 | Mean net days 06/07 | Mean gross day 07/08 | Mean net days 07/08 | Mean gross days 08/09 | Mean net days 08/09 | Mean gross days 09/10 | Mean net days 09/10 | Mean gross days 10/11 | Mean net days 10/11 | Mean gross days 11/12 | Mean net days 11/12 |
| Cessnock | 104 | 67 | 88 | 34 | 101 | 46 | 81 | 47 | 93 | 48 | 75 | 46 |
| Lake Macquarie | 74 | 46 | 68 | 42 | 64 | 34 | 56 | 34 | 55 | 31 | 53 | 28 |
| Maitland | 56 | 35 | 66 | 34 | 59 | 28 | 45 | 25 | 47 | 29 | 50 | 29 |
| Newcastle | 79 | 79 | 72 | 38 | 75 | 38 | 73 | 40 | 73 | 48 | 91 | 51 |
| Port Stephens | 75 | 43 | 81 | 31 | 72 | 27 | 54 | 26 | 56 | 30 | 66 | 34 |

Figures based on the Department of Planning Performance Monitoring

DA Tracker

Cessnock City Council has enhanced its online tool "Application Tracker". These enhancements have meant that customers can easily search (at any time of the day) on the progress of their development application. The enhancements include:

- More user-friendly application searching functions ;
- Inclusion of a property location map;

- Ability to search via applications processing, notifications or those on public exhibition;
- Provision of a standard form to lodge a submission online; and
- Integration between Application Tracker and Council's electronic document management system to view notification documentation online.

These enhancements have improved productivity by reducing the number of enquiries for Council's Help & Information Staff and Planning & Building Teams.

Reduction of outstanding long term applications

During the past two years Cessnock City Council has focused on reducing the number of outstanding long-term development applications. Table 19 below demonstrates that the number of outstanding applications greater than 40 days is the lowest it has been during the past decade.

Table 19: Outstanding applications by processing time

| Processing | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | /05 | /06 | /07 | /08 | /09 | /10 | /11 | /12 | /13 |
| > 40 days | 189 | 264 | 270 | 199 | 224 | 193 | 151 | 122 | 115 |
| > 100 days | 125 | 167 | 195 | 139 | 129 | 129 | 108 | 83 | 74 |
| > 200 days | 63 | 106 | 134 | 100 | 78 | 104 | 78 | 54 | 43 |
| > 500 days | 7 | 33 | 40 | 45 | 34 | 46 | 45 | 24 | 11 |

Conditions of consent

In 2013 Cessnock City Council reviewed its standard conditions of consent and this has resulted in improved consistency in development assessment.

Development officers are now able to utilise a new tool to generate standard conditions without relying on administration staff to duplicate this function and this has resulted in a process improvement of up to three days in relation to development assessment overall processing times.

Online services – Council's website

During 2013 and 2014 Cessnock City Council will roll out a number of online services on Council's website.

Online Booking of Building Inspections: Cessnock City Council currently receives approximately 200 bookings for building inspections per month. This on-line service will allow the customer to book an inspection at any time of the day without relying on telephoning Council during business hours. In the past, it has taken customers up to ten minutes to book a number of inspections by telephone. This will be a productivity saving of approximately 2 hours per day for Council's Help & Information staff.

Online Certificates: Cessnock City Council is currently piloting the implementation of online certificates, which will include Section 149 Planning Certificates, 735A Certificates, 121ZP Certificates, 88G Certificates and 603 Certificates. This service will allow customers to apply for a certificate at any time of the day (whereas currently they can only lodge certificate applications in person during business hours or via mail).

It is estimated that approximately 2,300 certificates will be lodged on-line during the first twelve months of operation of this service. This will result in staff no longer having to scan, receipt, register, print and mail certificates saving approximately:

- Records staff: 3 hours per week.
- Help & Information staff: 3 hours per week
- Administration staff: 7hr 20 minutes per week

Online Applications: Cessnock City Council is currently working on the implementation of three modules of MasterPlan product:

Enquirer – a tool to help customers prepare development applications. By selecting the relevant property and the proposed use, the customer can readily view the relevant development controls that apply to the land and the proposal.

Applicant - a tool designed for the customer after they have completed the Enquiry. It provides a more detailed level of investigation, as well as enabling the customer to submit an application online.

Assessor - a tool used by council staff to assess development applications.

Data Validation

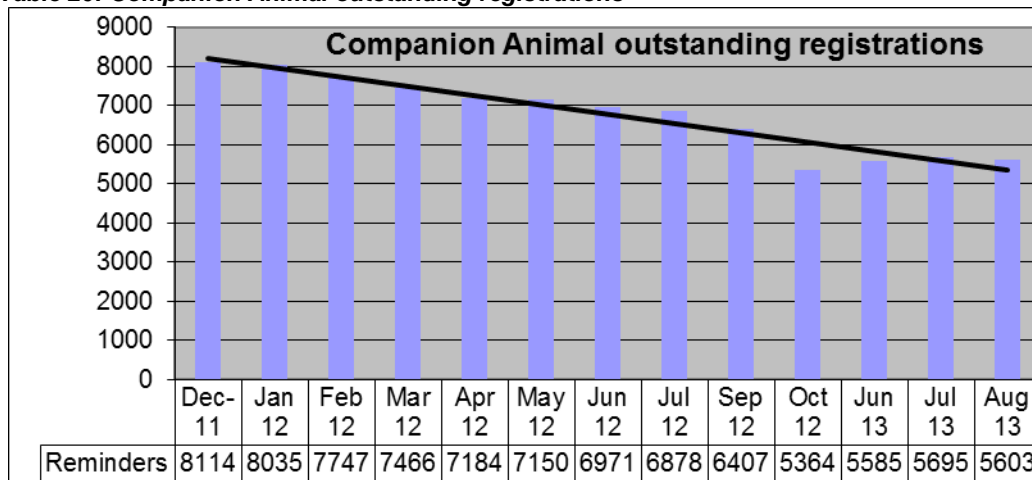
Cessnock City Council has undertaken data cleansing of mapping layers and property attributes to ensure the accuracy and integrity of its data. Scripts are now run each week to validate the data to ensure accuracy Council's systems.

Companion Animal Registrations

During the past two years Cessnock City Council has embarked on a program to reduce the number of unregistered dogs and cats in the local government area.

This program has involved monthly mail-outs and reminders to the owners of unregistered dog and cats and has reduced the number of unregistered animals from 8,114 in December 2011 to 5,603 in August 2013 as shown in Table 20 below.

Table 20: Companion Animal outstanding registrations



This program has also increased Council’s revenue from registration fees, as shown below:

- 2012-2013 \$123,284
- 2011-2012 \$93,020
- 2010-2011 \$78,164

Organisational Structure

Cessnock City Council completed a review of its organisational structure in October 2013. This review included reducing the number of Directors reporting to the General Manager from four to three. The structure will maintain the existing provision of services and also allow for improvements and modifications in the future. The three directorate structure also provides a minimal cost associated with its implementation and it provides ongoing savings.

The new structure also identified three additional roles to significantly reduce the costs associated with external service providers that Council currently incurs. The new roles are:

- Legal Officer: This role will significantly reduce Council’s costs associated with external legal advice and provide some in-house expertise on legal matters.
- Risk Officer: This role will develop, implement and maintain an Enterprise Risk Management Framework and coordinate the preparation and maintenance of Business Continuity Plans.
- Ombudsman: This role will undertake or facilitate investigations relating to allegations made against the Council, Council’s staff or the administrative conduct of Council itself.

Industrial Arrangements

Cessnock City Council has recently negotiated a single new Enterprise Agreement with its employees – replacing separate indoor and outdoor staff agreements. The new enterprise agreement is more closely aligned to the Award and this has resulted in payroll and management efficiencies gained through the streamlined application of conditions of employment throughout the workforce.

Electronic Human Resources Forms

In 2013 Cessnock City Council introduced a series of electronic forms for a range of human resources activities such as recruitment, leave applications, etc. This initiative has enabled forms to be completed electronically and saved both staff time and the cost of paper.

Other Human Resources Initiatives

Cessnock City Council is investigating further human resources initiatives including:

- Electronic recruitment;
- Electronic performance management;
- Employee self-service leave applications; and
- Electronic timesheets.

Installation of wireless network link between the Council Administration building and the Depot

Cessnock City Council currently leases a private dedicated fibre cable as its network connection between the Council Administration Building and the Works Depot. While the link meets the needs of Council, it is costly and is not scalable to accommodate increases in demand.

Investigations have determined that a wireless connection would retain the current level of service, reduce Council's costs, as well as provide capacity for the growth of the network.

The implementation of a wireless connection will result in an annual saving in excess of \$50,000 and the installation process is currently underway.

Electronic Document Management

In December 2012 Cessnock City Council updated its electronic document management (TRIM) and customer request (CRM) systems to allow better functionality and usability. The implementation of the new systems has resulted in process improvements in Council's Records Section.

Council's project team is continuing to review processes and procedures to further streamline systems and implement improvements.

iDevices

Cessnock City Council's elected Councillors have been issued with iPads as the first step towards the distribution of business papers by electronic means. This will result in savings in staff time, printing costs, and delivery costs.

In addition, Cessnock City Council has commenced trials with field staff completing bridge maintenance inspections electronically, on an iPad, rather than using paper forms. The completed electronic forms are automatically saved in a format for loading into Council's computer systems. This functionality removes the need for duplication and re-entry of the information into different systems.

It is anticipated that electronic forms will replace all paper forms used by field staff and, based on current inspection numbers across road maintenance, building, health and recreation, Cessnock City Council will eliminate more than 240 hours of data entry per year and reduce errors from double-handling. In addition, the outcome of inspections will also be processed faster (same day availability in key computer systems).

Cessnock City Council has issued iPhones to field staff to improve communications and allow data input on the spot. These staff can now receive and action e-mails whilst in the field.

Data Centre Virtualisation

During 2013-14 Cessnock City Council has migrated ten physical servers to virtual servers. This change has reduced Council's ongoing server lease costs by more than \$30,000 per year. In addition, there will also be lower running costs due to less use of electricity and air conditioning systems.

Computer Replacement Program and Windows 7 Adoption

Cessnock City Council recently replaced its computer fleet and adopted Windows 7 as its preferred operating system. This change has allowed for improvements in the operability of computers – which now boot in less than two minutes (where previously it took more than four minutes). When measured across all computers and staff, this improvement has gained more than 1,300 hours in staff productivity per year.

In addition, Cessnock City Council's 280 computers are now set to automatically enter sleep mode after ten minutes of inactivity. This change reduces the electricity use of the computers.

Prior to the replacement of the computer fleet, Cessnock City Council undertook a review of the service of life of computers and their peripherals including benchmarking device service lives with other industries. As a result of this review, Council has adopted an "operator to failure" approach to considerably extend the

service life of its computer monitors. This approach is expected to save Council more than \$60,000 in monitor costs over the next 6 years.

Library Management System

Cessnock City Council's library management system 'Spydus' is now hosted in the "Cloud" resulting in reduced management costs, hardware replacement and electricity requirements. Moving to a managed solution for the library management system resulted in an annual saving of \$5,000.

The managed solution also delivered additional functionality that will enable implementation of a radio frequency identification (RFID) system. Council has received a grant to implement a RFID system to improve the efficiencies in library service.

Regional Procurement Initiative

Cessnock City Council is a member of Hunter Councils Inc. Hunter Councils Inc. has established a Regional Procurement Initiative, as a collaborative approach to regional tendering and contracting for in excess of \$200m in tenders and contracts.

Cessnock City Council, along with other members of the Regional Procurement Initiative, will benefit from reduced administration costs (including advertising, specification development, and tender evaluation) in the conduct of annual and bi-annual tender processes.

In addition, businesses also benefit from reduced administration costs as they are able to access multiple councils through the one tender process.

Use of Regional Procurement Contracts

In July 2012 Cessnock City Council adopted a Hunter Councils' Regional Procurement contract for the supply and delivery of road resurfacing services.

This contract replaced three biennial tenders (for spray sealing, asphaltic road surfacing and heavy patching services) that were previously conducted in-house by Council and has saved Council approximately \$45,000p.a. in administration costs.

Council has also benefited from more competitive pricing under the Regional Procurement contract.

New Vehicle Contribution Agreement

In December 2012 Cessnock City Council introduced a new Vehicle Contribution Agreement that included three new low-cost vehicle categories for vehicles with lower fuel consumption and life-cycle costs. The leaseback fees charged for each vehicle category was also reviewed using current capital and operational costs.

It is estimated that the revised fees, as a result of this new agreement, have increased Council's income by \$11,500 in 2012-13.

Use of State Government Contract for Bulk Fuel Purchasing

In July 2013 Cessnock City Council commenced purchasing fuel from State Government Contract 366.

Based on the Council fleet's fuel consumption it is estimated that, during 2013-14, this initiative will result in savings of \$15,000 for unleaded petrol and \$62,000 for distillate.

Additional Fuel Tax Credit Claim

Cessnock City Council is currently working with Deloitte Tax Services Pty Ltd to claim additional fuel tax credits for the period 1 November 2008 to 30 June 2013 for its fleet of side-loading garbage collection vehicles.

It is estimated that this will result in a repayment from the Australian Taxation Office of approximately \$20,000.

Council will then investigate further claims for its other heavy vehicles such as the street sweeper and jet patcher.

Dollar for Dollar Grants

Cessnock City Council administers an annual Dollar-for-Dollar Grant Scheme aimed at assisting community groups to enhance and maintain community assets and the environment. The intention of the grant scheme is to assist with the purchase of equipment and completion of minor capital works to improve the utilisation of facilities.

During the 2012-13 Council provided the following Dollar-for-Dollar grants:

- Community Facilities – funding of \$14,294.56
- Sporting Facilities and Equipment – funding of \$30,369.99
- Community Cultural Development – funding of \$21,919.95

This program resulted in upgrades to community facilities valued in excess of \$120,000, at a cost to Council of \$66,584.50

8 Other information

8.1 Previous Instruments of Approval

Cessnock City Council currently has in place a special rate variation for the renewal of roads which expires on 30 June 2014.

A copy of the Instrument of Approval for the existing special rate variation is included as Attachment 25.

8.2 Reporting to your community

Cessnock's City Council 2014-15 Operational Plan will clearly identify the proposed special rate variation and the Capital Works Program will identify the road renewal projects associated with it.

The special rate variation projects will be solely focused on the renewal (road resealing and rehabilitation) of the existing road network apportioned as outlined in Table 2 above and will not be utilised for road widening, shoulder restoration or sealing of gravel roads within the road network.

The selection of specific segment level works in accordance with the approved apportionment will be developed as part of the preparation of the 2014-15 Operational Plan (specifically the Capital Works Program) and budget.

Council will update the overall pavement condition of the road network annually and will undertake a whole-of-network assessment every four years. This will be undertaken using the Pavement Condition Index which forms part of Council's Asset Management System for roads.

The Pavement Condition Index has been identified as a measure to determine progress against the community's objective of improving the road network in the Community Strategic Plan, *Cessnock 2023* (page 20 of Attachment 1). Progress against this measure will be included in the End-of-Term report.

In addition, Cessnock City Council prepares quarterly reports on the progress in implementing the Delivery Program (including the annual Capital Works Program) and also prepares an Annual Report that includes details of the work carried out with the proceeds of the special rate variation. Both of these reports are available on Council's website.

8.3 Council resolution to apply to IPART

Council resolved at its meeting on 19 February 2014 to apply for a special variation of 9.55% that remains permanently in the rate base under Section 508(2) of the Local Government Act 1993 (Attachment 26).

9 Checklist of contents

Cessnock City Council has included the information below in support of this application.

| Item | Included? |
|---|-------------------------------------|
| Relevant extracts from the Community Strategic Plan | <input checked="" type="checkbox"/> |
| Delivery Program | <input checked="" type="checkbox"/> |
| Long Term Financial Plan | <input checked="" type="checkbox"/> |
| Relevant extracts from the Asset Management Strategy | <input checked="" type="checkbox"/> |
| TCorp report on financial sustainability | <input checked="" type="checkbox"/> |
| Media releases, public meeting notices, newspaper articles, fact sheets relating to the rate increase and special variation | <input checked="" type="checkbox"/> |
| Community feedback (including surveys and results if applicable) | <input checked="" type="checkbox"/> |
| Hardship Policy | <input checked="" type="checkbox"/> |
| Past Instruments of Approval (if applicable) | <input checked="" type="checkbox"/> |
| Resolution to apply for the special variation | <input checked="" type="checkbox"/> |
| Resolution to adopt the Delivery Program | <input checked="" type="checkbox"/> |

10 Certification

CESSNOCK CITY COUNCIL - APPLICATION FOR A SPECIAL RATE VARIATION

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

General Manager:

Stephen Glen

20 February 2014

Responsible Accounting Officer:

Robert Maginnity

20 February 2014