# Waverley Council

## Application for a Special Variation to Rates under Section 508A of the Local Government Act

## Part B

**25 March 2011**

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*We are united by a common passion*
*for our beautiful home between the city and the sea.*

Waverley
Council

# Contents

## 1. Introduction

This application for a special rate variation is made under Section 508A of the Local Government Act and in accordance with the Division of Local Government (DLG), Department of Premier and Cabinet *Guidelines for the preparation of an application for a special variation to general income in 2011/12*.

The application is considered to be fully compliant with the criteria set down in the *Guidelines* for a successful application. See **Section 3** for a high level summary of the full compliance achieved by the application.

Council is aware that this application tests the boundaries of the usual applications by virtue of:

- its quantum (at least in percentage terms),
- the length of time the rate variations are proposed to apply – 7 years, and
- the fact that it is for sustainability of services as a whole to deliver a full and balanced quality of life, rather than a simple individual item which may or may not be discretionary.

As to the quantum, Council submits that rates in Waverley are low and are likely to be still on the low side of average rates in Sydney in 7 years, even with the apparently high % increases. The % increases proposed in this application do not translate into large or unaffordable $ increases and there is a clear mandate from residents and ratepayers for the rate rises. Indeed there is a clear mandate for rate rises larger than those proposed in this application.

As to length of time, Council submits that raising the rates over 7 years rather than shorter periods is cheaper than alternatives and provides security of service continuity at the lowest long run cost. We also submit that in the case of this particular application, a shorter period would be fundamentally inconsistent with both the *Guidelines* and the legislated intention of the Integrated Planning reforms themselves. See **Section 6.3** for the rationale of this interpretation of the *Guidelines* and the Integrated Planning and Reporting Framework.

The holistic nature of the application is the natural consequence of good integrated planning. The degree of integrated planning undertaken over the last 5 years at Waverley has involved a detailed assessment of Council's entire service profile to ensure it is properly directed at hitting the targets of *Waverley Together 2*. The result is a coordinated investment program that is affordable and at the same time avoids irrational and clearly unwanted sacrifice of service quality.

This application is therefore not made for items that may be deemed "discretionary". There is no item in the application which does not contribute directly to the targets of *Waverley Together 2*. Some items may, by individuals, be deemed more discretionary than others. However, the convergence of views in statistically valid surveys is that the services on offer – or at risk as it were – are all either important or very important. The Waverley community does not distinguish between them in terms of discretion and is not offering guidance to Council as to how to distinguish between them on this basis. On a scale of 1 to 5 where 5 = very important, a substantial majority of our community rates every single service at 4 or above. Service levels funded by this application are therefore deemed by Council to be essential in the Waverley community's view and the minimum acceptable to them.

It is Council's firmly held view that the application has been made in the community's best interests overall and is a socially just application consistent with the fundamental principles of integrated planning and the Charter for Local Government.

Comprehensive detail has been provided in the application in support of the service levels chosen as the minimum necessary to hit the targets of *Waverley Together 2*. However, we recognise the volume of material in attachments and on our website is large and that time may not permit IPART to concentrate on all the detail of this material. Council is naturally eager to assist and requests that IPART engage closely with Council throughout the assessment period whenever doubts arise as to the consistency or clarity of detail.

Contact on the application may be made with:


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|---|---|
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|---|---|
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Our community's

# *Vision*

We are united by a common passion for our beautiful home between the city and the sea.

Inspired by the magnificent landscape of Waverley and by the gifts we have inherited from those who have been here before us, we dream of a fulfilling life where…

we are safe

we are reconciled with and value our indigenous past

connections within families and between generations can remain unbroken

we are inspired and able to renew our physical and spiritual wellbeing

everyone is welcome to participate positively in community life

we can express our essential selves through our traditions, our arts, our cultures and our lifestyles

we act together as a compassionate society

the beauty of our beaches, cliffs and coastal lands endures

the architectural landscape is cared for and developed at a human scale and design is sensitive to the natural, historical and social contexts

vital services are fully accessible

scarce resources are conserved and fairly shared

local economic prosperity provides opportunities for all

as a local community we have the courage to take a leading place in achieving the environmental aims of a global society

we are confident our leaders will reflect thoughtfully on our views and best interests when making decisions for our future

These are the aspirations of our hopeful generation.

We recognise the need to commit to this vision of our future with energy so we can pass these gifts to our children and they to theirs.

## 2. Special Variation Application Overview

### 2.1 Reasons for the application

Waverley Council makes this application to ensure that a viable Resourcing Strategy is available, consistent with Integrated Planning legislation, for delivery of services and works to meet the targets of our community's adopted Strategic Plan, *Waverley Together 2*.

The application is made on behalf of the Waverley community who have granted a clear mandate for the requested rate variation and who strongly support both the Community Strategic Plan and Council as the key service provider for delivery of its Vision.

As custodian of this State's most popular and heavily visited coastline, in particular Bondi Beach, Waverley faces special challenges. Our community has clearly articulated its preference for a beautiful, clean, well maintained environment, a place where people feel safe and anti social behaviour is minimised. To achieve this in an area that hosts more than 20 million visitors each year requires an extraordinary financial and resourcing commitment from Council.

The application is also made to provide improved prospects for the long term financial sustainability of Council itself. With its current structure of revenue and expenditure, particularly a very poor rates coverage ratio, Waverley Council is facing successive deficits from 2011/12 onwards. These deficits will arise for existing services.

### 2.2 Period covered by the application

The application is for a period of 7 years.

### 2.3 Financial impact of the proposed increases

The proposed rate variation is for an average per annum rate yield rise equivalent to the yield that would be realised by rate rises of 11.12% cumulative for 7 years, followed by 4 years of CPI increases added to the upper yield of total ordinary rates achieved by the variation by 2017/18.

The proposed rate variation includes the Local Government Cost Index (LGCI) and is to be applied to a base of total ordinary rate income of $27,341,207 from 1 July 2011. This base of total ordinary rate income has been reduced by the removal of environmental levy funds of $972,799 from the total rates yield realised in 2010/11. The environmental levy will cease on 30 June 2011.

If applied as proposed, the rate rise will be sufficient to resolve financial shortfalls for delivery ***of Council's contribution*** to the vision and targets of *Waverley Together 2*. We recognise we are not the only contributor to realisation of the Vision and that it can only be achieved by partnership with other levels of government, with businesses and, most importantly, with our community. But we are a major player.

Council's contribution to *Waverley Together 2* is therefore designed as a holistic and integrated program of services and works called *Service Plus*. This program is to be delivered over the 12 year period of *Waverley Together 2* from 2010 to 2022.

This application shows that delivery of *Service Plus* in full is fundamental to achievement of the Vision and Targets of *Waverley Together 2*.

The rate variations for *Service Plus* are not proposed to apply in uniform % increases but in relatively smooth even $ increases for years 2 to 6 of the 7 years with lower $ increases either side of years 2 to 6. This is generally in line with a request by the majority of the community in recent direct consultation on this matter. Increases are intended to be applied cumulatively for 7 years in % terms as follows:

**Table 1 – Proposed Distribution of Rate Rises in % Terms**

| 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|
| 14.50% | 13.50% | 12.50% | 11.50% | 10.50% | 8.67% | 2.22% |

Note that in the last year there is a drop in the percentage rate rise. This happens to be equivalent to the expected CPI in that year. As such the period of elevated rate increases will seem to ratepayers to end after 6 years instead of 7, if their preference for flattened dollar increases is agreed to.

However, if the rate rises are to be applied as uniform percentage increases, the rate rises will last for 7 years and will be for 7 annual lots of 11.12% cumulative.

The above rate revenue paths over the 7 years must be followed by 4 more years of CPI increases added to the upper yield achieved by 2017/18 if the Waverley community is to be able to fully fund *Service Plus*.

This requested variation raises the exact amount of rates necessary to reduce the total shortfall on *Service Plus* to zero within the remaining 11 year period of *Waverley Together 2*.

### 2.4 How the community will benefit

The benefits of the application include but are not limited to the following:

- It will **secure resources for delivery of an efficient program of services deemed *essential*** by the community – *Service Plus*.

  - ✓ In our most recent major consultation program to confirm the most acceptable Resourcing Strategy under the IP&R framework for delivery of the Community Strategic Plan – a large scale in depth consultation program called *Funding the Future*[1] – the Waverley community was unambiguous in their support for security and enhancement of the services currently provided by Council.

- Delivery of the *Service Plus* program in full will directly **enhance the Waverley community's capacity to reach the targets, and hence vision, of *Waverley Together 2*** and avoid a reversal of sustainability at the quadruple bottom line.

  - ✓ Statistically valid surveys have confirmed almost 90% support within the community for all 14 elements of the Vision of *Waverley Together 2*. The direct connection between delivery of *Service Plus* in full and the community's capacity to realise its Vision is demonstrated clearly throughout this application.

[1] *Funding the Future* was a collaborative engagement and survey program conducted for nearly 4 months in the latter half of 2010 as a follow-up to similarly large scale consultation conducted in 2009 for development of *Waverley Together 2*. Results of the two rounds of consultation are drawn on extensively in this application to show evidence of widespread support for the application within the community. Waverley Council has won a national award for its use of integrated planning and community engagement in development of efficient least cost long term plans.

- It will **improve the financial sustainability of Council** itself and enable it to meet its diverse obligations under the Charter of the Local Government Act for provision of core services and stewardship of assets and the environment.

- It will **enable burden for maintenance of physical and social capital to be shared fairly between generations** and will address past underinvestment in services and assets in a timely way – before maintenance backlogs (physical and social) become too expensive to fix.

  - ✓ During the Funding the Future consultation program almost 75% of respondents freely acknowledged that expenditure delayed is expenditure increased. There was genuine recognition that the timely expenditures proposed would constitute the lowest long run cost program which is fairer for all.

### 2.5 How the application reflects the Community Strategic Plan

One year of the 12 year planning period covered by *Waverley Together 2* has already elapsed. Services within *Service Plus* have been delivered by Council for this first year, as per the Delivery Program 2010/13 within budget. However, there is a shortfall for delivery of *Service Plus* for the remaining 11 years.

Without the proposed rate variation the shortfall for *Service Plus* over the next 11 years will be $186,570,356.

Without *Service Plus* there will be:

- a failure to achieve targets for 32 out of 33 Directions/Strategies of *Waverley Together 2*,
- an attendant reduction in the community's capacity to achieve the agreed Vision, and
- a reversal of social, environmental, economic and governance sustainability.

This application shows that services in *Service Plus* are central to delivery of the adopted Community Strategic Plan and that a very significant majority of the community has acknowledged the essential nature of all the services in *Service Plus* by:

- rejecting service cuts,
- expressing dissatisfaction with current service levels, and
- calling for enhancements of current services in specified areas.

It is evident from consultation that Council's services are considered to be more central to achievement of desired quality of life than the services of either of the other levels of government. In this sense it is very hard – in fact it's impossible – to find something in Council's service array that a majority or even a near majority of the community would deem discretionary. Every service delivered by Council at the moment is considered important or very important and this has been reflected in not one but 2 statistically valid surveys conducted in association with *Waverley Together 2*.

This result leaves Council itself with no room to use discretionary spending cuts as a means of balancing the budget.

The community has shown very strong support for increased investment in its own future and clearly prefers to make this commitment to sustainability. The application is commended to the Tribunal.

## 3. Need for the variation

The key purpose of the variation is for:

| | |
|---|---|
| Infrastructure maintenance / renewal | X |
| New infrastructure investment | |
| Environmental works | X |
| Maintain existing services | X |
| Other (specify) | X |

- To secure the long term financial sustainability of the Council which is currently under threat due to excessive dependency on variable sources of funding and a very low rates coverage ratio.

### 3a. Case for the variation

The DLG Guidelines stipulate that applications shall conform to 6 key criteria. Waverley's application meets all these criteria as shown in **Table 2** at the end of this section. However, the main features of the case for the variation are:

1. There is intense pent up **demand** for services that is not being met.

   - See **Section 3** for detail on demand.

2. Waverley Council is facing **financial sustainability** concerns which can be fixed in an affordable way by implementing the well balanced combination of 6 financing strategies recommended in this application.

   - See **Section 6** for Council's the proposed combined financing strategy.

3. Expenditure estimates have been closely revised downwards over a period of years providing a high degree of confidence that the program on offer is an **efficient least cost mix of services geared closely to demand**.

   - See **Section 3** for discussion of feasibility of expenditures and accuracy of expenditure estimates.

The 3 main features of the case for the variation are addressed in summary as follows:

#### 3a.1 There is a strong demand for services

Waverley Council has assessed demand by using the Integrated Planning and Reporting (IP&R) framework and the community engagement opportunities that this offers. This engagement has demonstrated intense demand for services that are central to the achievement of the CSP. The results are:

- **The adoption of a Community Strategic Plan for which there is substantial community support:**

  - ✓ Almost 90% of residents and ratepayers in an independent statistically valid survey[2] have stated that it is important or very important to achieve all 14 aspects of the vision of *Waverley Together 2* by 2022, if not before.

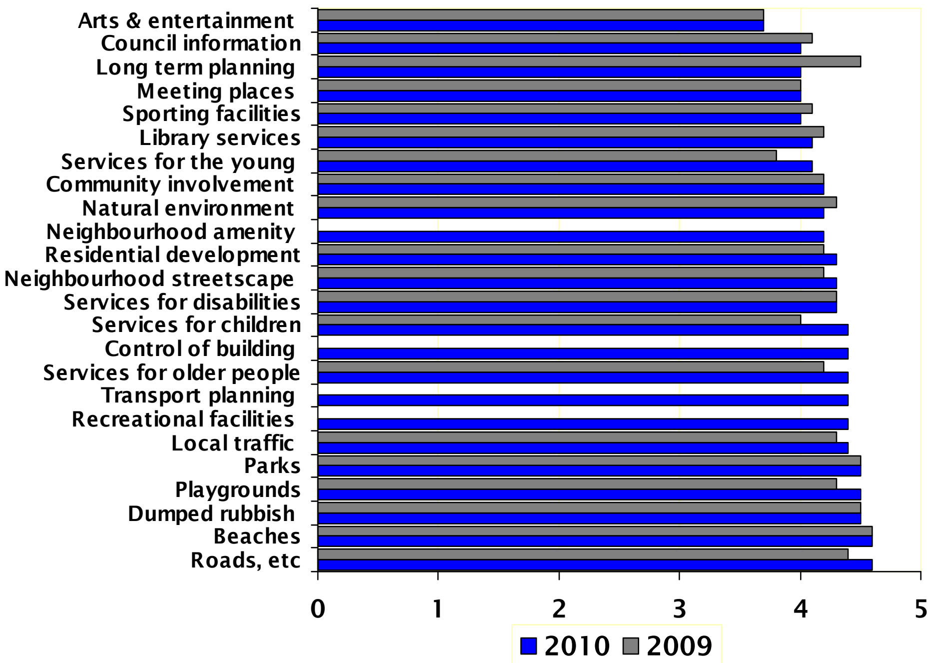
- **Equally large scale community support for Council as the lead player in provision of essential services to meet the vision of *Waverley Together 2*:**

  - ✓ 88% of residents and ratepayers stated that Council is the most important provider of services to sustain and meet desired quality of life in Waverley, over and above the community itself, local businesses, State Government and the Federal Government.

- **Equally large scale support for Council's proposed services and service enhancements as an essential means of efficiently achieving the vision and targets of *Waverley Together 2*:**

  - ✓ 82.3% of residents and ratepayers agreed on average across all services that they are important or very important, with a mean score of 4 out of 5 being achieved for all but one service as shown in the following graph prepared by HVRF:

**Hunter Valley Research Foundation**
**Comparison of 2009 and 2010 Surveys on Importance of Waverley Council's Services**




| | | |
|---|---|---|
| Ranking scale: | 5 = Very Important | 1 = Service is Very Unimportant |

[2] Hunter Valley Research Foundation has independently conducted 2 statistically valid surveys of the Waverley community for *Waverley Together 2* and for *Service Plus*. See Section 3 for more detail.

- **Very strong majority endorsement of Council's recommended service package, *Service Plus*, for maintenance of all 22 existing services and for enhancement of service levels in all but 4 of services:**

  - ✓ 67% of residents and ratepayers in a statistically valid survey have stated that it is important or very important to enhance services in specific areas;

- **Very substantial majority rejection of service cuts as a means of resolving budget shortfalls associated with delivery of *Service Plus*:**

  - ✓ Only 14% of respondents in the statistically valid survey thought it was unimportant or very unimportant to enhance services;

**and finally**

- **A clear mandate for funding shortfalls via a rate rise as large as 120% over 7 years, as long as we're efficient and deal compassionately with those in hardship in accordance with the vision statement of *Waverley Together 2*:**

  - ✓ Depending on the magnitude of the rate rise, the number of people in the statistically valid survey who preferred to fund shortfalls for *Service Plus* outweighed those who didn't by factors of anywhere between 1.7 and 2.3.

  - ✓ Alternative options for funding shortfalls (via raising parking charges excessively) were as roundly rejected as the rate rises were supported.

### 3a.2 There is a need to achieve financial sustainability

The case for the variation is strengthened even further when Council's financial sustainability is taken into account. With its current structure of revenues and expenditures, Waverley Council is not financially sustainable. As of 2011/12 we will not meet the minimum benchmarks for financial sustainability as defined by IPART, in as much as our rates coverage ratio will be below 40%. The average rates coverage ratio for metropolitan councils is 64%.

Waverley's rate variation proposal is not substantial enough to correct this problem over the next decade. This is because, in the interests of community affordability, Council has resolved to fund only the shortfalls on *Service Plus* for the moment and to assume responsibility for managing risks that may arise from a continuing poor rates coverage ratio via maintaining its past excellent track record of efficiency gains. These gains will partly reduce the future risk of a continuing low rates coverage ratio but not entirely.

A rate rise of lower quantum than the one proposed will mean a reversal of sustainability for Council and a noticeably lower productivity. Conversely, Council is confident that the proposed rate rise of 11.12%, if implemented in combination with other selected feasible financing strategies (see **Section 6**), will result in some reasonable improvement in sustainability and a productivity increase.

### 3a.3 There is an efficient and feasible program of expenditure

Finally the case for the rate rise is confirmed by taking into account the accuracy of expenditure estimates which have been progressively refined and revised downwards over 5 years. These estimates have produced what is acknowledged as an efficient spread of services capable of being delivered to Waverley residents with comparative (or even relatively low) cost impost on ratepayers, compared to what ratepayers in other LGAs pay for decidedly smaller service arrays. This application shows how Waverley's expenditures per head, while seeming high on a per capita basis, are in line with other Group 2 councils when like baskets of services are compared. The extent to which Waverley imposes on residents to fund those services is in fact very low.

Waverley's rate variation application is the result of 5 years of detailed estimating, cost revision and remarkably innovative engagement to set a whole community on a surer track to sustainability. The maturity of this process, particularly the use of best practice in integrated planning and engagement, has been acknowledged nationally in awards and by independent expert reviewers, eg., Morrison Low, who reviewed our suite of plans in late 2010 and said:

> *Morrison Low have assisted and reviewed community engagement processes undertaken for the community strategic plans in both NSW and Queensland. The process adopted by Waverley Council is by far the most comprehensive we have seen. We believe it has provided some of the best community input and feedback to the community planning and subsequent delivery planning process.*
>
> *We encourage Councils to create 'the right debate' in the community with a discussion around the main challenges, issues and options facing the area. The fully informed community debate and feedback on major challenges was a key feature of Waverley's engagement process.*

*Morrison Low Integration Review and LTFP Review*
*December 2010*

### 3b. Compliance with criteria for a successful application

Because of this maturity of approach to integrated planning, Waverley is able to fully comply with all the DLG/IPART criteria for assessment of rate variation applications. The following table provides a summary of the best practice compliance achieved by this application.

**Table 2 – Waverley Council Special Rate Variation Application for Delivery of *Service Plus* for *Waverley Together 2* – 2010 to 2022**
**Summary of Conformance to DLG Criteria for Assessment of Applications**

| Criterion | Performance of Rate Variation Application |
|---|---|
| **Criterion 1**<br><br>Demonstrated need for the rate increases derived from Council's completed IP&R framework, highlighting one or more of the following:<br>▪ Service provision requirements, new demand for services, or community support for enhanced service standards<br>▪ Infrastructure backlogs that have adverse implications for the amenity, safety and health of the community.<br>▪ A special or unique cost pressure faced by Council. | Waverley's SRV application is made:<br><br>1. to secure long term funding for:<br><br>▪ continuation of all services deemed necessary by the community to achieve the targets of *Waverley Together 2* by 2022,<br>▪ enhancement of some services expressly called for by the community in consultation about *Funding the Future*,<br>▪ renewal of existing infrastructure to meet standards developed in detailed consultation with the Waverley community for social, environmental and economic amenity, and<br><br>2. to secure the long term financial sustainability of the Council which is currently under threat due to excessive dependency on variable insecure forms of funding. |

| Table 2 – Waverley Council Special Rate Variation Application for Delivery of *Service Plus* for *Waverley Together 2* – 2010 to 2022<br>Summary of Conformance to DLG Criteria for Assessment of Applications | |
|---|---|
| **Criterion** | **Performance of Rate Variation Application** |
| **Criterion 2**<br><br>Demonstrated community support for the special variation | Waverley's SRV application is made on the basis of strong community support shown for the rate variation in:<br><br>▪ detailed consultation programs conducted at the "collaborative" level of consultation as defined by the DLG, and<br>▪ statistically valid surveys on community support for services, the Community Strategic Plan, and the rate variation.<br><br>Support for rate variation is clearly demonstrated in that the number of residents who supported a 120% rate increase over 7 years out-numbered those who didn't by a factor of 1.7 to 1. Council has resolved to apply for a rate rise of less than 120% and yet is still delivering the full value of *Service Plus*. Therefore we cam assume the rate rise proposed in this application of 91% over 7 years will be more than acceptable to the Waverley community. |
| **Criterion 3**<br><br>Reasonable impact on ratepayers | Waverley's SRV application is structured taking into account the socio-economic capacity of the community overall. Research on this shows:<br><br>1. there is capacity within the community, in a socio-economic sense, to increase rates:<br><br>▪ currently rates are very low in Waverley, especially compared to other areas in Sydney with much poorer indices of socio-economic disadvantage than Waverley,<br><br>2. not raising rates would result in higher long run costs for essential services and works which would amount to an unreasonable burden on future ratepayers; and<br><br>3. an enhanced hardship scheme has been developed specifically responding to the concerns of the band of the community most concerned about the rate rises (those paying at that high end of the rating price range for Waverley). |
| **Criterion 4**<br><br>Sustainable financing strategy consistent with the principles of intergenerational equity | Waverley's Long Term Financial Planning includes a detailed analysis of the advantages and disadvantages of taking loans and using other funding strategies (alternative to rate rises) to spread financial burden more fairly between generations. It concludes that:<br><br>1. at the current interest rates for fixed term loans there is no advantage to the current or future generations from taking loans for infrastructure renewal or other capital items which do not generate operating returns sufficient to repay those loans;<br><br>2. a strategy of delaying or carefully staging any backlog infrastructure works over 7 to 10 years is the most feasible, effective and cheapest alternative means of fairly distributing burden between generations; and<br><br>3. slow flattened rate rises over 7 years will protect future ratepayers from steep rate rises later and help ensure that a financially sustainable council will be able to secure service continuity and prevent long run cost increases. |

| **Table 2 – Waverley Council Special Rate Variation Application for Delivery of *Service Plus* for *Waverley Together 2* – 2010 to 2022<br>Summary of Conformance to DLG Criteria for Assessment of Applications** | |
|---|---|
| **Criterion** | **Performance of Rate Variation Application** |
| **Criterion 5**<br><br>An explanation of the productivity improvements the Council has realised in past years and plans to realise over the period of the proposed special variation | Waverley Council's track record of productivity improvements has kept pace with or bettered the Australian economy wide productivity gains of around 1.2%.<br><br>Over 100 initiatives in business review, organisational development, industrial agreement negotiation and other reforms have led to significant efficiency improvements over the past 10 years.<br><br>Waverley's *Workforce Plan 2010-2014* includes a continuation of this successful program of efficiency reviews for the future. |
| **Criterion 6**<br><br>Implementation of the IP&R framework | Waverley's implementation of the IP&R framework has been independently reviewed by both external consultants and the NSW DLG. The framework of plans and the Engagement Strategy used to develop it has been endorsed as excellent.<br><br>The Waverley community is likewise very supportive of Council's approach to long term planning.<br><br>Waverley's IP&R framework includes several best practice or even above-benchmark features such as:<br><br>▪ an Environmental Action Plan, the costs of which are fully integrated into our LTFP, and<br>▪ a Strategic Asset Management Plan which uses a verified alternative means of substantially reducing assessed costs to renew and maintain infrastructure – for which Waverley won the Federal Government's 2010 National Award for Asset and Financial Management. |

The above analysis shows that a special rate variation of the magnitude and duration proposed by Waverley Council has the necessary capacity to secure the future demanded by the Waverley community, if it is implemented in combination with a range of efficiency programs and alternative financing strategies. Council's Long Term Financial Plan, LTFP3.1, describes an innovative program for bringing multiple sources of funding opportunities and efficiency programs together to deliver a large program of services in an affordable way.

This plan proposes a comprehensive change to the structure of Council's finances for ongoing financial and QBL sustainability, consistent with the intent of the Integrated Planning & Reporting reforms. It is based on the view that it is neither necessary nor preferred to cut services and sacrifice QBL sustainability to achieve financial sustainability. Council contends that all 22 of its services can be sustained and enhanced for relatively small increases in rates. Rate increases proposed for the next 7 years are smaller in dollar terms than might be inferred from the increases when they are spoken of in percentage terms. This is because the increases are springing off a very low base. The average residential rate in Waverley is approximately $150 lower than the average rate for metropolitan councils.

Waverley is confident that with the detailed reporting systems we have developed we will be able to demonstrate to the community that there was value in their decision to invest more in their area via Council.

Performance reports to the community on the effect of their increased investment in Waverley will be provided as per the accountability requirements of the IP&R framework.

### 3.1 Strategic planning information

This application is for a special variation to rates that will raise funds sufficient to bridge financial shortfalls for delivery of services necessary to meet the targets of the Waverley Community's adopted Strategic Plan, *Waverley Together 2*.

*Waverley Together* 2 was adopted on behalf of the community by Waverley Council on 16 February 2010.

See **Attachment 1** for the full *Waverley Together 2*.

Specifically the application is to secure a total revenue path over 11 years sufficient to fund a holistic program of services called *Service Plus* to 2022.

*Service Plus* is a composite of 12 components of service including:

**Component 1** for maintenance of expenditures necessary to deliver all existing services to 2022, and

**Components 2 to 12** for enhancement of expenditures on existing services where there is agreement that existing service levels do not meet the demand now and will not be sufficient to ensure the community can achieve its targets for *Waverley Together 2* by 2022, such enhancement to occur in the following areas:

| | |
|---|---|
| Component 2: | Providing more opportunities for recreation, health and wellbeing |
| Component 3: | Providing more opportunities for artistic and cultural expression |
| Component 4: | Providing more and safer access to public places |
| Component 5: | Providing more and safer access to transport |
| Component 6: | Providing more and safer access to vital services |
| Component 7: | Providing more cleaning and greening of all the spaces we share |
| Component 8: | Providing more inviting streetscapes |
| Component 9: | Providing more restful local neighbourhoods |
| Component 10: | Providing a more sustainable environment with increased protection from global warming |
| Component 11: | Providing more preservation of natural resources and ecosystems |
| Component 12: | Partnering with a more engaged, connected and inspired community actively involved in decision making |

After 2 years of extensive consultation at a collaborative level and 2 independent statistically valid surveys by the Hunter Valley Research Foundation (HVRF), delivery of *Service Plus* **in full** has been deemed by the Waverley community, to be necessary to meet the 60 specific targets adopted in *Waverley Together 2* for achievement of quadruple bottom line sustainability by 2022.

There is a direct connection between delivery of *Service Plus* and achievement of the vision and targets of *Waverley Together 2* as follows:

### Waverley's integrated plans: Integration in action

| | |
|---|---|
| ***Service Plus*** | *22 main service categories* comprising 150 sub-services contribute directly to efficient implementation of |
| **Directions/Strategies** | the *33 Directions/Strategies* in *Waverley Together 2* to assist the community to meet |
| **Targets** | *60 Targets/Indicators* for quadruple bottom line sustainability that, if met, will |
| **Vision** | enable the community to realise all *14 Vision elements of* Waverley by 2022. |

See **Attachment 2** for a full breakdown of:

- which Council services contribute to which Directions/Strategies,
- which Directions/Strategies contribute to which Targets, and
- which Targets indicate achievement of which Vision element in *Waverley Together 2*.

Full implementation of *Service Plus* has been deemed by the Council to offer the best and lowest cost chance of meeting the targets of *Waverley Together 2* within the next 11 years.

Failure to implement *Service Plus* in full will mean an immediate movement backward from the current baseline of QBL sustainability.

Implementation of only Component 1 of *Service Plus* (ie., without the enhancements) will also mean an immediate movement backward from current service levels because top up expenditures, necessary to keep existing services at their current levels of output are required. These top ups are provided throughout Components 2 to 12 of *Service Plus*.

**Attachment 2** provides a view of quality of life at the QBL in Waverley with less than full implementation of *Service Plus*.

**Attachment 3** provides a full list of services in *Service Plus*.

**Attachment 9** provides the 2010 Hunter Valley Research Foundation statistically valid Survey of Residents and Ratepayers on Funding Options for *Waverley Together 2*.

**Important Note:**

Waverley Council relies on detailed comprehensive interpretation of the results of the HVRF surveys for guidance as to the community's views on rate rises and the level of services that they feel should be maintained to meet the targets of *Waverley Together 2*. The methodology for this survey, combined with other detailed community engagement conducted for determining the best and cheapest overall Resourcing Strategy for *Waverley Together 2*, has been independently reviewed and is considered to be best practice in the local government industry for genuine collaborative community engagement. It is important that the results of this 2 year long engagement process be considered as a whole. Extrapolation from isolated remarks, positive or negative, and the use of such extrapolations as evidence of the majority opinion, is rejected by Council and is not considered appropriate as a basis for planning a sustainable future. Nor is it considered to be consistent with the principles of social equity and access on which Integrated Planning is founded.

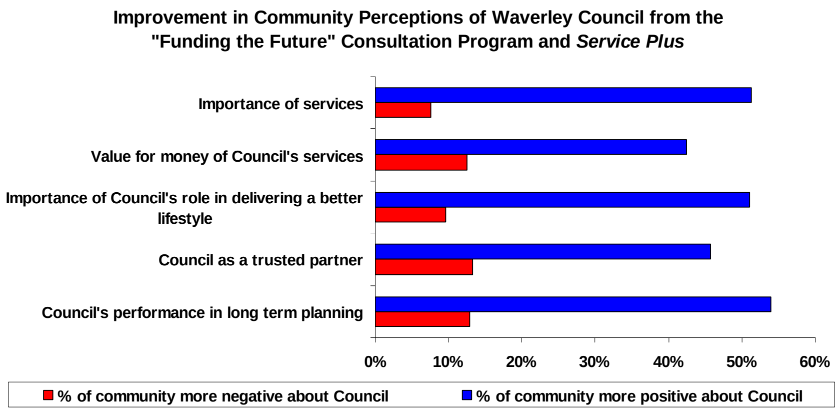
This rate rise proposal is therefore based on a holistic interpretation of the results of multiple collaborative engagements as explained throughout this application.

Council requests that IPART note that the statistically valid HVRF surveys had somewhat different methodologies:

- One was conducted in 2009 before commencement of more detailed engagement in study groups, web forums and open days for *Waverley Together 2* and it was conducted without providing information to respondents. It was a cold call survey.
- The second one was conducted after the provision of information and required respondents to engage quite deeply with alternatives.

Despite the differences in methodology, the results of both surveys on the importance of services were the same. All services were rated by a significant majority as important or very important in both surveys. This is considered to provide a high degree of integrity to results.

Community regard for Council as a partner in service delivery and as a long term planner rose significantly as a result of our survey process as the results of the 2010 HVRF statistically valid survey show opposite.



### 3.2 Financial Planning Information

Waverley Council's rate variation application is supported by a Long Term Financial Plan (LTFP3.1) that has been developed in accordance with the prescribed Integrated Planning and Reporting requirements.

See **Attachment 4** for Council's Long Term Financial Plan 3.1.

For purposes of financial analysis, the 12 Components of *Service Plus* have been fed into 6 separated layers of LTFP3.1 as follows:

**Table 3 – Correspondence of Layers in LTFP3.1 with *Service Plus***

| LTFP3.1 Layers | | *Service Plus* Components | |
|---|---|---|---|
| **1. Base Layer** | ***corresponds to …*** | **Component 1:** | Continuing Waverley Council's existing services |
| **2. Investment Strategy Layer** | | **Component 2:** | Providing more opportunities for recreation, health and wellbeing |
| | | **Component 3:** | Providing more opportunities for artistic and cultural expression |
| **3. Sustainable Assets Layer** | | **Component 4:** | Providing more and safer access to public places |
| | | **Component 5:** | Providing more and safer access to transport |
| **4. Sustainable Environment Layer** | ***variously correspond to …*** | **Component 6:** | Providing more and safer access to vital services |
| | | **Component 7:** | Providing more cleaning and greening of all the spaces we share |
| | | **Component 8:** | Providing more inviting streetscapes |
| **5. Operational Enhancements Layer** | | **Component 9:** | Providing more restful local neighbourhoods |
| | | **Component 10:** | Providing a more sustainable environment with increased protection from global warming |
| **6. Capital Enhancements Layer** | | **Component 11:** | Providing more preservation of natural resources and ecosystems |
| | | **Component 12:** | Partnering with a more engaged, connected and inspired community actively involved in decision making |

### 3.2.1 Required scenarios

Waverley Council's LTFP3.1 considers 2 scenarios for its financial future:

| **Scenario 1:** | **Existing services are maintained at their current levels of output but *without* a Special Rates Variation** |
|---|---|
| The LGCI applies | Partial implementation of *Service Plus*:<br><br>▪ Component 1 of *Service Plus* / Base Layer of LTFP3.1 only |

| **Scenario 2:** | **Existing services are maintained at their current levels of output and services are enhanced as per the full *Service Plus* but *with* the requested full Special Rates Variation** |
|---|---|
| Council's application for a Special Rates Variation is approved | Full implementation of *Service Plus*:<br><br>▪ All 12 Components of *Service Plus* / All 6 Layers of LTFP3.1 |

Summary results for these two scenarios are:

| **Scenario 1:** | **Result** | |
|---|---|---|
| The LGCI applies | A shortfall of $84,901,750 for the Base Layer will prevail | Existing services will need to be cut to achieve average annual savings equivalent to approximately 7% of current budget |

| **Scenario 2:** | **Result** | |
|---|---|---|
| Council's application for a Special Rates Variation is approved | A shortfall of $186,570,356 for all 6 layers of LTFP3.1 will be reduced to zero | Full implementation of *Service Plus* can be achieved |

### 3.2.2 Analysis of model results

Analysis of both scenarios in LTFP3.1 shows that after 2010/11 there is no scenario in which a balanced budget and financial sustainability can be achieved without:

- accessing further sources of reliable income via a rate variation, or
- achieving savings through service reductions.

This is because our total income, although it will grow at greater than CPI over the next 11 years, is not going to grow fast enough to match demand for enhancements to services and pent up demand exemplified by dissatisfaction with current service levels. It is also not going to grow fast enough to remedy backlog infrastructure renewal.

Every effort has been made in the financial model to:

- raise non-rates income sources to the extent thought reasonable (above CPI overall),

- factor in assumed efficiency at an ambitious rate, and
- control costs for:
    - o labour – recognising that labour is currently undersupplied in the Base Layer for maintenance of existing levels of service,
    - o environmental management, and
    - o asset renewal.

These measures have been variously successful and, overall, the shortfalls have been progressively reduced by more than 20% compared to those expected in 2008 when Waverley's first LTFP was done. This reduction has been achieved by various means including detailed consultation with the community on desired asset condition standards. However, the shortfalls remain.

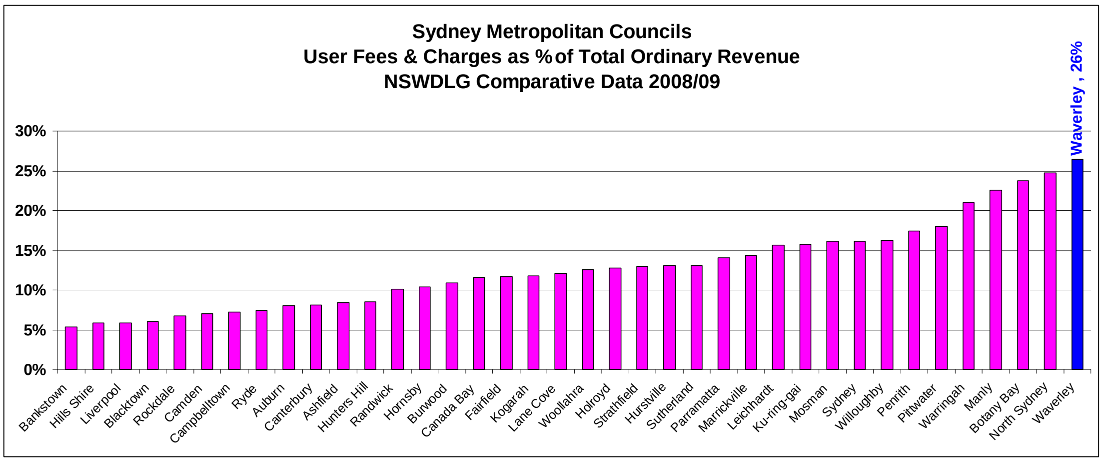
The following commentary is provided to indicate what assumptions have been applied about future income and costs to clamp the shortfalls down as far as possible and how effective these measures have been.

### 3.2.3 How have alternative income sources been considered?

#### a. User fees and charges

User fees and Charges have been escalated in the financial model at CPI or in some cases substantially above CPI (eg., parking fees). This has helped reduce the necessary rate rise substantially but does not fully resolve shortfalls in any layer in Scenario 1.

Although Council has been fairly ambitious in its targets for increased revenue from fees and charges, especially with respect to parking, there is caution about more reliance on this source of income from a financial sustainability point of view. Waverley already relies proportionally on user fees and charges more than any other metropolitan council including Sydney and North Sydney as shown below.




Within the financial model the intention, in the interests of sustainability, is to slowly reduce *proportional* dependency on this source of income but still to increase *total* income from this source. Total income from parking fees, on-street and off-street is set to rise by 93% in the model over the next 11 years, well above CPI. Total income from user fees and charges including parking is set to rise by 53%, also well above CPI. More dependency than this is not considered advisable from a financial sustainability point of view or reliable as a planning assumption. As a result shortfalls cannot reasonably be reduced further than they have already been by the imposition of higher fees and charges.

**b. Asset Sales**

Substantial assets (at a value of approximately $50 million) have been sold or are programmed within the financial model for imminent sale. This has raised revenue to fully finance capital renewal/creation of major essential facilities for services, which has helped reduce the necessary rate rises substantially. However, these asset sales do not fully resolve shortfalls in any layer in Scenario 1.

See **Attachment 4**, LTFP 3.1, Chapter 4, for the full list of assets to be sold and renewed/created under the Investment Strategy Layer.

**c. Other revenues**

Other sources of operational income have been escalated at CPI in the financial model, although due to reductions in the base of these income sources in recent years (particularly Federal Assistance Grants and parking fines), this has not proved to be of major assistance in resolving shortfalls in Scenario 1.

**d. Reserves**

Unrestricted reserves have been consumed in the financial model but this does not improve the situation in any layer. In Scenario 1, reserve balances are expected to drop below the level required by the Restrictions Policy:

- in the Base Layer by 2012/13 and remain below the required level thereafter.
- in all 6 layers by 2011/12 and remain below the required level thereafter.

Were Council to choose to act outside its Restrictions Policy and consume all reserves, their capacity in Scenario 1 would be exhausted:

- in the Base Layer by 2018/19, and
- in the remaining layers by 2014/15.

Council has naturally rejected options of acting outside the Restrictions Policy.

See **Attachment 4**, LTFP 3.1, Chapter 2, Section 2.4, for Council's Restrictions Policy.

**e. Loans**

Analysis has been undertaken to assess the benefits of using loans to spread burden across generations and reduce rate rises for the current generation. In brief, this analysis shows that Waverley's debt levels are low, albeit that our debt service ratio is higher than the average for Group 2 councils.

Waverley does not have a policy of operating on a debt free basis and is not against increasing debt *per se*. In this context and policy setting framework, however, loans are really only likely to be taken in the next 10 years for:

- investments which can generate sufficient financial returns to repay the debt, or
- where cash flow issues are holding up necessary works and can be reliably resolved by loans which can be repaid.

The use of debt is only likely to increase for other types of investments (ie., those that don't generate financial returns for Council such as backlog infrastructure renewals) if attractive reliable (ie., fixed) interest rates can be obtained for the life of the loan. This is because there is obviously a point of diminishing returns for the current generation (the generation of the next ten years) from debt financing. In Council's view this point of diminishing returns is arrived at when interest rates reach around 8%.

Unfortunately, interest rates on offer at the moment for fixed interest loans are in the order of 8%. This makes debt financing for works which do not generate a new income stream, such as road renewal works, quite unattractive at this time.

Loans are factored into the financial model at the moment for one investment currently under consideration – creation of new pavilion for funerals in Waverley Cemetery. However, it's by no means certain this will go ahead and in any case this project is not part of the rate variation application.

Analysis of the total spread of works that might be funded by loans has shown that a maximum of approximately 12% of the total capital program may *theoretically* be suitable for debt financing. However, except for the Cemetery Pavilion and Land Purchases (2 houses in Bondi Junction which Council is very likely to be compelled by their owners to acquire in the next 10 years) there is no real benefit to be offered by debt financing in terms of intergenerational equity. Cash flow benefits may arise from short term loans in some cases. Overall, at the current interest rates the use of debt to spread costs is highly inadvisable, especially if there is no reliable source of income for repayments.

As such increased borrowing has not been considered effective as a strategy to reduce shortfalls, other than to the extent noted above.

See **Attachment 4**, LTFP 3.1, Section 2.5, for a fuller discussion on the feasibility and effectiveness of increased borrowings to offset shortfalls.

### f. Efficiencies

Assumed labour efficiency gains of about 1.4% per annum have been built into the financial model to offset some of the service cost shortfall. This is roughly consistent with the track record of directly employed labour productivity average gains in the last 10 years. Suggestions were made by Council officers during the planning process that these expected ongoing productivity improvements should not be used to defray future rate rises but instead should be set aside in part or in whole as a contingency for continued risk associated with our extremely poor rates coverage ratio. Council, however, rejected this proposal and opted to assume the entire 1.4% as a source of funds to reduce shortfalls and corresponding rate rises.

Notwithstanding this decision, shortfalls still remain as, obviously, a 1.4% per annum efficiency gain does not offset an average 7% per annum shortfall for existing services.

- See LTFP 3.1, Chapter 9, Section 9.2.1, for analysis of assessed productivity gains in the last 10 years and assumptions about productivity gains in the next 10 years.

### 3.2.4 How have costs and demand been considered?

#### a. Labour costs

Expenditure on employee costs has been escalated in the Base Layer of the model at an average of approximately 4.9% per annum which includes a 0.1% discount to reflect certain labour efficiency gains targeted by Council in its December 2010 resolution to apply for a rate variation. This is a historically low escalation figure for total employee cost increases (almost 2% lower than the actual pace of average annual growth in total employee costs in the last 5 years).

However, some additional employee costs are factored into the Operational Enhancements Layer of LTFP3.1 to isolate cost growth associated with assumed additional staff necessary for:

- maintenance of existing service levels, where the Base Layer is actually currently undersupplied with labour; and
- delivery of enhanced levels of service.

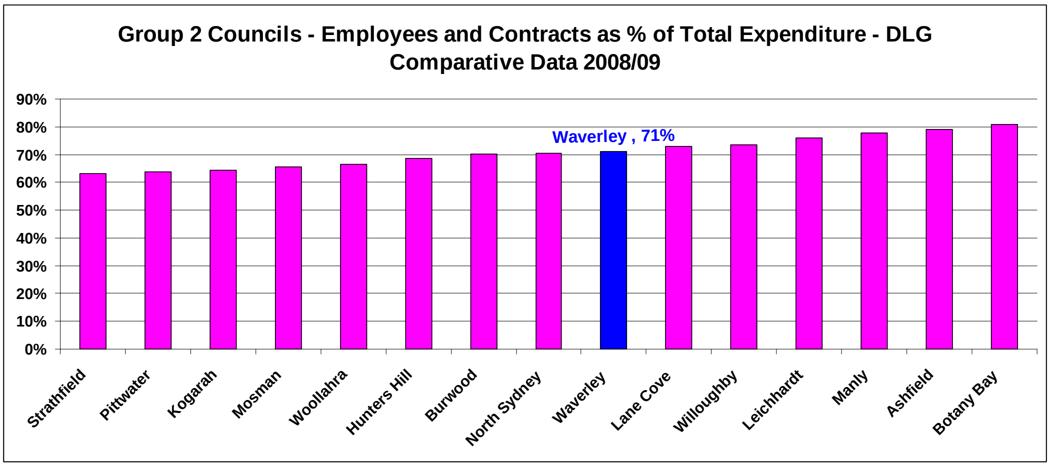
Some of these employee costs for enhanced services are fully or partially offset by funding sources alternative to rates, eg., child care centre workers and cemetery workers.

Analysis of the need for additional labour for both maintenance of existing services and enhancement of services has been undertaken via preparation of Council's workforce plan, *Working Together – Workforce Plan 2010-2014*. Despite this careful analysis and application of historically conservative assumptions about growth in employee costs, and despite assumptions of possible cost offsets for new labour, identification of areas where labour is currently under-supplied, particularly in relatively expensive skilled professional areas, has resulted in a situation where shortfalls still prevail for both existing services and the full *Service Plus*.

- See **Attachment 5** for the full text *Working Together – Workforce Plan 2010-2014*.

- See **Attachment 19** for a breakdown of assumptions on employee costs in the Base Layer to 2021/22.

It should be noted that during the 2010 *Funding the Future* community consultation on the rate rise, several adverse comments were made about Waverley Council having the highest number of directly employed staff in our Group of councils (Group 2). In response it was pointed out that our total use of labour including contractors, based on DLG Comparative Data, is probably right on the average for metropolitan councils as a proportion of total expenditure. For Group 2 councils it is right on the average as shown below:




Nothing in these data strongly suggests that Waverley's approach to labour is any more or less efficient than councils who heavily contract out. But even if a heavy dependence on directly employed staff were a more inefficient way to provide labour, there would be no grounds for using comparative data on direct labour to conclude that Waverley Council is over-staffed.

What was not pointed out about Waverley's staff numbers during the 2010 *Funding the Future* consultation, and probably should have been, was that it is only natural that Waverley would have more directly employed staff as we supply a huge service that no other Group 2 Council supplies at the level we do, not even North Sydney. This service is Parking Services and since the year 2000 it has added over 60 equivalent full time staff to our labour force. This labour provides significant service benefit to the Waverley community in the form of parking spaces which would otherwise not be available at all. They turn a mere 2,115 on-street spaces in commercial areas into more than 20,000 opportunities per day to find a parking space, not to mention the beach and off-street parking benefits and the opportunities they create for approximately 6,000 residential car owners to find a parking spot near their home. Profit from this service exceeds $11 million per annum, all of which is returned of course to the ratepayer on top of the parking service benefit already provided.

If we deleted parking staff it would bring Waverley more into line with other Group 2 councils in terms of staff numbers, although we would still probably be the biggest direct employer. It would also bring us more into line with average per capita expenditures for Group 2 councils, dropping our expenditure per capita by about $150. But the effect of the deletion on the bottom line would not be a net saving or a balanced budget. It would transfer burden to ratepayers for service expense, much of which they can currently avoid completely by charging visitors. Not only would shortfalls be unresolved, they would be well over $100 million bigger, and parking service levels would be hugely lower than they are now.

Although Waverley staff numbers have grown in the past five years, they have not grown by as much as they should have to keep pace with demand for services in a variety of both front- and back-of-house areas. In the past we have tended to absorb much of the cost increases associated with burgeoning demand and it is assumed in the financial model that there is capacity to absorb some more. But the demand has only been partially met and to balance budgets staff numbers have been kept artificially low, especially over the last 3 years, in areas where they cannot recover their costs. As such, there is now a "backlog", as it were, of staff requirements for existing services in the same way that there is a backlog of infrastructure renewals. This is showing up most in areas for which the only reliable source of income would be rates. As such it has not been possible to bridge the shortfalls and meet demand without a rate increase.

See **Attachment 8** for a breakdown of:

- where staff increases have occurred in the last 10 years,
- where value has been added by that labour increase,
- where it has been possible and not possible to get a complete cost offset for required increases in labour, and
- where labour remains undersupplied relative to demand.

As noted above, the Base Layer is currently undersupplied with labour both for maintenance of existing service levels and for enhancements to existing services. Staff undersupply is most apparent in the areas of urban open space greening, restful local neighbourhoods (rangers) and partnering with an engaged community.

However, going forward, LTFP3.1 does not propose to fund all this labour undersupply by a rate rise. Some of it will be funded by user charges, some by rates, some by efficiency, and some not at all. Projections about the staff levels required are therefore absolute minimums. The areas where staff numbers are proposed to increase are the areas of highest dissatisfaction with services.

For a breakdown of costs for extra staff included in the Operational Enhancements Layer see **Attachment 4**, LTFP3.1, Financial Table 1.

Also see **Attachment 8** for a breakdown of:

- where staff are currently in undersupply,
- where the undersupply is intended to be funded by the proposed rate rise, and
- where failure on *Waverley Together 2* targets is likely to occur if this labour is not supplied some time in the next 11 years.

### b. Service demand – general

Demand for service enhancements has remained very strong throughout consultation for *Waverley Together 2*, despite repeated communications about funding shortfalls and the rate rises thought necessary for various levels of enhancement. Workshops held in 2009 with the community to devise alternative funding strategies and assess their risk, feasibility, and effectiveness, did not result in any demonstrated preference for service cuts at all. Instead, this consultation implied a preference for increasing funding from a combination of sources including developer charges, parking fees (not fines), increased efficiency and lastly but by no means least, a rate rise. Of all options for funding strategies, the one most rejected – unambiguously – in the 2009 round of engagement was service cuts.

See **Attachment 6** for the Report on the Integrated Engagement Strategy for *Waverley Together 2*, September 2009, particularly Section 6 on Community and Corporate Governance.

Repeat consultation on funding options through the latter half of 2010 – the *Funding the Future* consultation program – confirmed that service cuts were again strongly rejected by the community and alternative (non-rates) funding options – raising parking fee income and fines – weren't preferred either.

- See **Attachment 7** *Funding the Future: Report on Funding for Waverley Council's Services 2010 to 2022*, December 2010, Section 2, particularly Section 2.1.1.

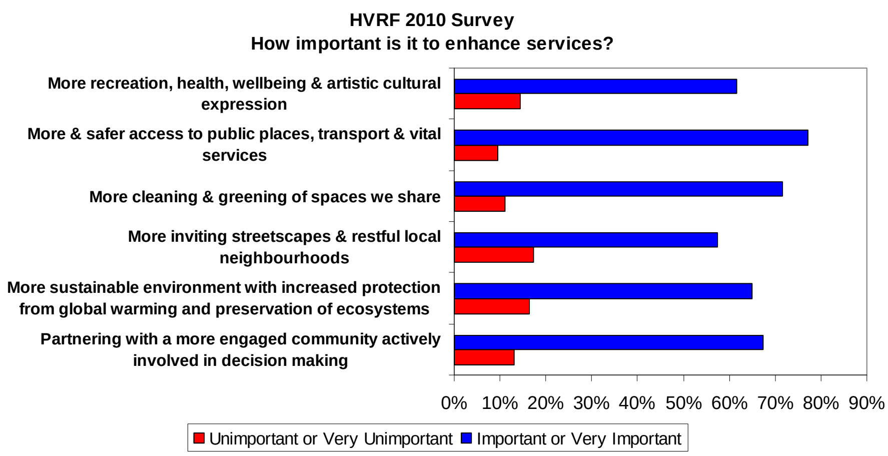
The desire for efficiencies as a source of funding, however, strengthened in the second round of consultation compared to 2009.

- See **Attachment 7** *Funding the Future: Report on Funding for Waverley Council's Services 2010 to 2022*, December 2010, Section 2, particularly Table 4.

Positive reinforcement of all 14 elements the Vision of *Waverley Together 2* as the ideal of life worth striving for was very strongly reinforced in the 2010 consultation with almost 90% support for the Vision as a whole. The Waverley community's Vision (note – this is a community Vision not a Council vision) is unusually detailed compared to most other Vision statements to enable better tailoring of services. That being the case, recognition of the importance of Council's services in securing the various parts of the Vision was also strongly acknowledged in this second round of consultation, with some demands actually intensifying compared to 2009, despite the fact that a huge amount of consultation and media exposure occurred on the extent of the rate rises required. The rate rises were clearly explained using terms like "120% increase over 7 years" and were also explained in annual dollar terms for different land values from the lowest to the highest. In other words, the community were told the rises for them personally and understood they were cumulative.

- See **Attachment 7** *Funding the Future: Report on Funding for Waverley Council's Services 2010 to 2022*, December 2010, Section 2.

Dissatisfaction with existing service levels rang out clearly in the 2010 consultation with 66.7% of respondents wanting to enhance current service levels as shown below:




A minority of people in the self-selected group of respondents in the 2010 *Funding the Future* consultation program suggested service cuts in certain areas, most frequently in:

- Community Services,
- Cultural Services,
- Environmental Services,
- Library Services,
- Place Management Services,
- Recreation Services, and
- Governance, Integrated Planning and Community Engagement.

However, when information was provided on how little is spent on these services – altogether they consume only about 15% of total funds spent each year – and how their cost is 20% offset by non-rates income, it was slowly acknowledged that full scale deletion of all these services would need to be undertaken to achieve a balanced budget. Service deletion at this scale would amount to achieving financial sustainability at the expense of QBL sustainability and the community showed no signs at all of supporting this.

A minority of people also suggested that Child Care and Affordable Housing could be provided more efficiently by other levels of government or the private sector. Council did not engage in great detail with the community about our efficiency in these two services. But when it was pointed out that the cost of these services, including capital, is entirely offset by grants, contributions and fees, respondents tended to desist from further complaint and generally acknowledged that removal of these services would not result in reduced shortfalls.

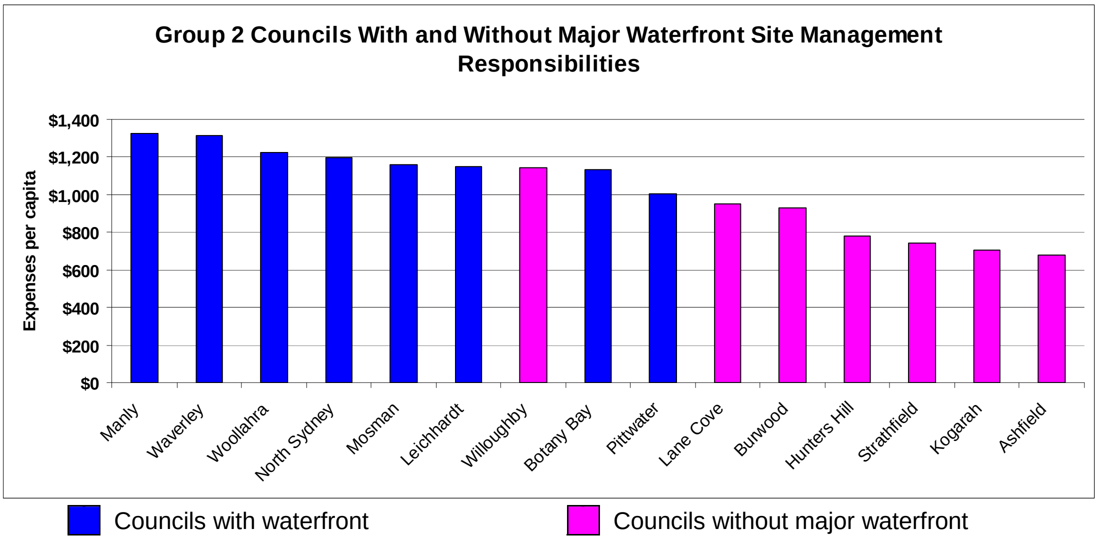
### c. Demand for beach, place and event management services

Demand for maintenance and safety at beaches and demand for event and visitor management has grown steeply over the last 10 years since riots occurred on Bondi Beach at disorganised events. The advent of a new “black label” Westfield in Bondi Junction has also acted as a major attractor of visitors (more than 22 million a year) most of whom come from beyond the LGA in newly developing areas such as nearby Victoria Park and Green Square. The eastern beaches are their playground with the emphasis being on Bondi Beach. Increased visitation is most easily monitored by simply counting the increase in residential parking schemes over the years. 10 years ago, homes in only 10% of the land area of the LGA were covered by residential parking schemes. Today the homes in more than 30% of the land area are covered by these schemes at resident request. The schemes have all grown up around the Westfield and Bondi Beach areas and are now spreading further into villages.

The cost of finding a parking spot, safely entertaining and cleaning up after these visitors (and the residents too) is growing by well more than CPI every year. Most of it can be offset by parking services income but the proportion that can be offset by this is dwindling.

The cost of beach management and place/event management alone (excluding parking services costs and urban open space maintenance costs) grew by 25% over the last 5 years. Urban open space maintenance and accessibility services grew by 60%. Taken together costs for all three services grew by 44% and still the community is particularly dissatisfied with cleanliness of open spaces and the disruption caused by intense visitation.

This sort of cost increase is an experience Waverley has in common with other councils rather than a lavish over-expenditure relative to demand. It's no coincidence that of the 9 councils in Group 2 that currently spend over $1,000 per capita annually, 8 have beach or major harbour waterfront issues to manage and the 9th (Willoughby) has a major regional business centre to manage, like Waverley. By contrast, the 6 councils in Group 2 who spend less than $1,000 per capita have no major waterfront management and no major regional centre.




In other words, councils experiencing high visitation around beaches and the harbour or regional centres are likely to have to spend much more than inland Group 2 councils without regional centres. Councils with both, like Waverley and North Sydney, are going to struggle to meet demand without accessing extra income.

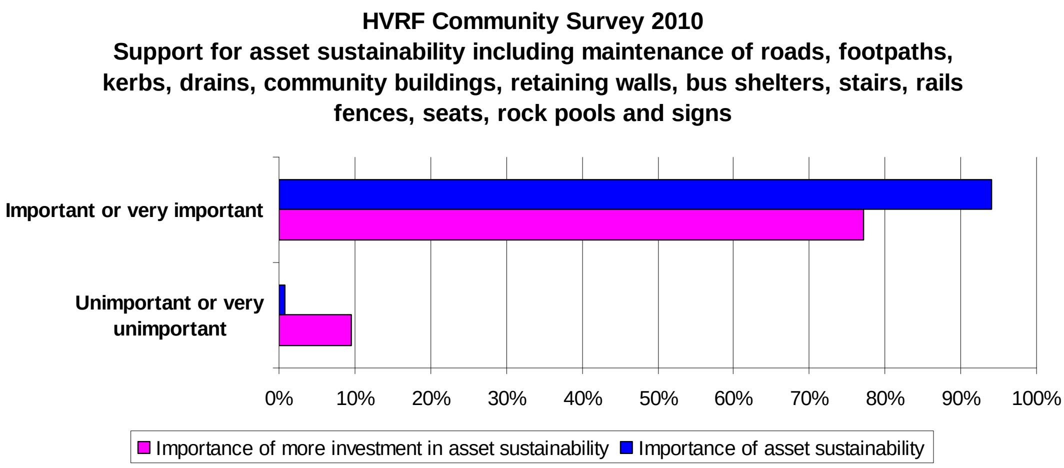
Opportunities to offset the cost of visitation as increases in parking income slow (compared to the increases in the last 10 years), are not all that great. Beach maintenance and safety services have never really attracted as much in the way of income opportunities as we would wish, even though it is the beach where internationally marketed TV series and features are shot and the Waverley lifeguard service itself is the subject of one of those series. Filming fees are capped unreasonably by the State Government in the interests of cross-subsidising the film industry – in other words there's a cost shift. Council manages despite such constraints to offset 16% of the cost of beach maintenance and safety by filming fees, vending/trading rights and rentals. We offset place management costs by 60% from sponsorships, rents, user charges, grants and contributions. The state government takes a slice of the rental income (15%), when it can, for leases on crown land reserves. These funds are then spent outside Waverley.

Costs for beach, place, event and urban open space management have been growing at almost twice the rate of inflation over the last 5 years. They are not plotted in the financial model's Base Layer to grow by more than inflation over the next 10 years but the practical reality is that unless more is spent on services in this area grow, the current satisfaction gap on these services will widen. Some small top-ups have been included in the Operational Enhancements Layer for place/event and urban space maintenance but these are likely to be less than necessary. Parking income increases will help plug the gap, but not entirely, and certainly not to the extent likely to be required. In the absence of a rate rise, customer dissatisfaction in this area will rise steeply.

### d. Demand for asset maintenance and renewal

In the 2009 HVRF community survey for development of *Waverley Together 2*, asset renewal and maintenance showed up as one of the highest areas of service demand and one of the highest areas of dissatisfaction with current service levels.

By 2010 it had overtaken other concerns such as dumped rubbish removal to become the service area most in need of improvement, according to the community.




See also **Attachment 7** *Funding the Future: Report on Funding for Waverley Council's Services 2010 to 2022*, December 2010, Section 2.

During consultation for development of *Waverley Together 2* in 2009, a significant amount of engagement had been undertaken with the community in study groups, web forums and open days to set service standards for critical categories of assets. This consultation, together with other innovative asset management planning methodologies developed by Waverley, resulted in a significant drop in the previously assessed cost of backlog asset renewal and maintenance, compared to what might have been thought necessary 5 years ago. An 84% drop was achieved in the estimated backlog renewal cost of roads, footpaths, kerbs, drains and buildings. And a 35% drop was achieved in estimated ongoing maintenance costs.

For this best practice use of integrated planning to devise a sustainable assets management program Waverley Council won the Federal Government's 2010 National Award for Local Government in Asset and Financial Planning.

However, despite this achievement in reduction of cost estimates, there is still a shortfall of $35 million over the next 11 years to achieve sustainable assets, including remedy of backlogs for footpaths, drains, retaining walls, parks infrastructure and landscapes, Waverley Cemetery infrastructure, street trees, stairs, fences, bus shelters, street furniture and signage.

The backlog for these can be cleared over the next 7 to 11 years and sustainable ongoing maintenance established if the $35 million requested top up for the Sustainable Assets Layer is approved. This spread of expenditure to resolve backlogs is considered to have low risk in terms of asset failure and is a cheaper strategy than borrowing.

It should be noted that there will be an immediate movement backwards in the current level of asset condition if expenditures included in enhancement layers are not made on top of the Base Layer expenditures. Expenditures in the Base Layer are not sufficient to keep assets in their existing condition, let alone meet the targets agreed with the community for asset condition in *Waverley Together 2*.

Asset renewal targets have been set with close reference to the community's clearly expressed wishes in *Waverley Together 2*. Existing expenditures in the Base Layer plus the extra top up expenditures in the Sustainable Assets and Capital Enhancements Layers are required as a minimum to reach the targets.

- For a full list of targets to be achieved for sustainability in each asset category, see **Attachment 1** *Waverley Together 2,* pages 42 and 43.

- For a breakdown of costs for infrastructure backlog and maintenance items included in the Sustainable Assets Layer and the Capital Enhancement Layer see **Attachment 4**, LTFP3.1, Financial Table 1.

**e. Demand for environmental maintenance and renewal**

During community consultation for *Waverley Together 2* in 2009, it became very clear that Waverley is a community with a strong commitment to protecting the environment. This had not shown up very noticeably when *Waverley Together 1* was developed in 2005 but it was remarkable by 2009.

By 2009, the awareness of global warming that had increased for all Australians in the latter half of the decade had internalised in Waverley residents a deep concern about the environment, not least of all because they saw the potential effect of global warming on the thing that surveys show they value most about living in Waverley – coastal living.

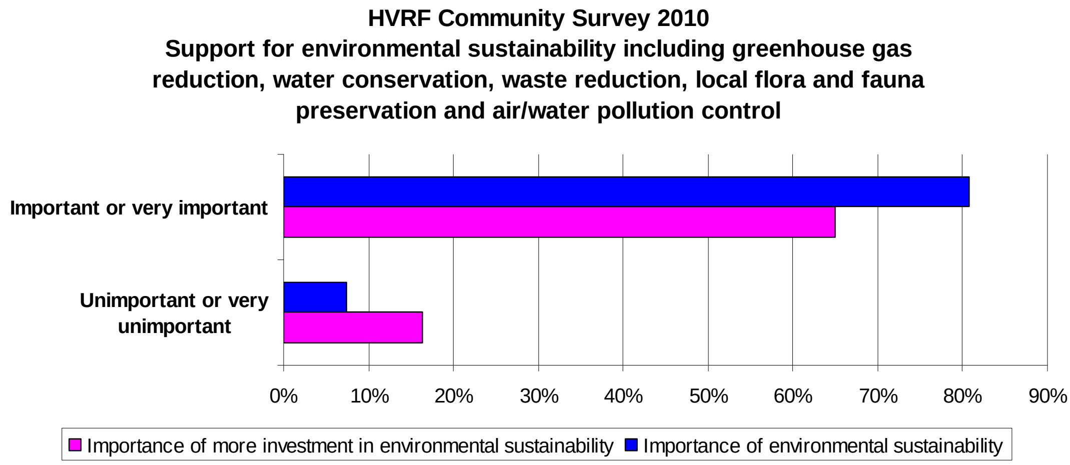
Consequently, by 2009 their taste for environmental protection had expanded from a focus on protecting natural ecosystems against pollution, to a focus on playing a part in a global transformation. Participants in the 2009 study groups and others at open days showed in particular an intensified desire to set standards for achievement of greenhouse gas emission reduction targets that will meet, or rather, exceed the internationally recognised targets recommended by the Intergovernmental Panel on Climate Change (IPCC).

In adopting *Waverley Together 2*, Council did not in the end adopt targets for emission reduction that were quite as high as many in the participating community indicated they wanted during the 2009 consultation. Instead we spent considerable time and funds using external consulting expertise to work out a practical program for energy and water conservation projects in particular areas of the LGA that would achieve the most in greenhouse gas reduction for the least cost to the community overall. This research was tailored especially for Waverley and its particular mix of land uses.

Fortunately, environmental/economic modelling showed that these projects, if implemented, would lead to achievements in sustainability that are on a par with the minimum targets for reduction of greenhouse gas emissions preferred by the IPCC. It will take massive cooperation from businesses and residents in the area, with public and private investment partnerships being established. But analysis of the economic efficiency of the projects shows the program is a viable investment and there is community and business willingness to create these partnerships.

Council's leadership role in development of these partnerships is costed in our *Environmental Action Plan 2*, a fourth and unusual element in our IP&R Resourcing Strategy. The cost commitment required from Council is relatively minor compared to the cost commitment required from the community for delivery of targets in *Waverley Together 2* for environmental sustainability. But at net $20.2 million (in addition to current expenditure levels in the Base Layer) it is still considerable. This level of increased investment which was strongly re-affirmed by the community in the 2010 consultation can largely only be funded by a rate rise. Certain cost offsets are available for this part of the Resourcing Strategy and they have been factored in to produce the net cost estimate of the Sustainable Environment Layer.

It is worth noting that in the 2010 consultation round and survey, support for this investment appeared to drop by a very small amount compared to the 2009 surveys. Support for more long term planning also dropped a little in the 2010 survey, compared to very strong levels of demand for more long term planning in 2009. HVRF has advised that this was probably caused by the fact that the 2010 survey included a significantly larger number of older people than the 2009 survey and that this demographic has shown itself in surveys as likely to be less concerned about the long term and less persuaded by theories of climate change. Despite the influence of older people on the 2010 survey results, demand for environmental sustainability remained among the strongest of demands for services with over 80% ranking environmental sustainability as important or very important and 65% saying it is important or very important to increase Council service levels in this area.




Targets for environmental sustainability have been set with close reference to the community's clearly expressed wishes in *Waverley Together 2*. Existing expenditures in the Base Layer plus the extra top up expenditures in the Sustainable Environment Layer are required as a minimum to reach the targets.

- For a full list of targets to be achieved for environmental sustainability, see **Attachment 1** *Waverley Together 2,* pages 38, 39 and 40.

- For a breakdown of costs for enhancements of existing environmental services in the Sustainable Environment Layer see **Attachment 4**, LTFP3.1, Financial Table 1.

**f. Miscellaneous externalities**

The state government has driven up councils' costs in recent years, well beyond CPI, and has not generally allowed councils to pass that cost on in rates. Classic cost increases include fire services levies, emergency services levies, parking space levies, levies on crown land leases and land tax. Some examples are:

- **Land Tax – new in the last 5 years:** Waverley is unusually highly affected since the state government removed land tax exemptions for local government. This now costs Waverley in excess of $400,000 a year and is set to cost more. It cannot be passed on to lessees.

- **Parking Space Levy – new in the last 8 years:** Waverley also gets caught by the state government's Parking Space Levy which now costs Council $130,000 a year.

- **Emergency Management NSW levy – new in the last 2 years:** Replaces the Fire Services levy. In the 2 years since being introduced this item has seen an increase of $383,702 or 34% from $1,102,871 to $1,486,573 without any means by which Council can pass these increases to ratepayers.

These 3 examples of cost increases on their own add up to nearly $1,000,000 per annum. This is before other recent extraordinary increases which Council has to absorb for things like water and electricity.

To date we have not seen the benefit of much, if any, of these funds coming back to Waverley from the state government.

The above cost increases are also before we take into account the extraordinary cost of physically assessing the condition of assets, a cost now (wisely) made virtually compulsory by the Federal Government as a precondition for future grant approvals. This is an excellent microeconomic reform which Waverley strongly supports but the cost of it has not been covered by any offsets and has had to be entirely absorbed by Council. To date, in Waverley's case, this cost exceeds $1 million and ongoing costs associated with it will well exceed $100,000 a year.

Corporate overhead costs have also risen due to externally imposed requirements for compliance with everything from public information provision to Council committee servicing, financial reporting, internal audit, records management, integrated planning itself, and more. Councils across the board are absorbing much and sometimes all of this type of cost increase rather than putting on more corporate overhead staff. Their own efficiency then works against them as rate rises in subsequent years are determined by a movement in cost which has been kept artificially low relative to the increased service levels required. Over a number of years this starts to take its toll. Waverley Council's capacity to absorb more of these increases is at its limit and labour is undersupplied in a number of corporate overhead areas. The Operational Enhancements Layer includes increased expenditures to make up for some of this labour backlog, but not all of it.

### 3.2.3 Impact of financial model results on the proposed rate rise

*Service Plus* is a $1.55 billion program of expenditure over the 12 years from 2010/11 to 2021/22 inclusive. As such it contains a huge amount of expenditure that is not the subject of the rate rise. The shortfall of expenditure intended to be funded by the proposed Section 508A rate rise is $186,570,356 or 12%. The rate rises proposed to bridge this shortfall are explained more in Section 3.3.

## 3.3 Efficient and feasible program of expenditure

*Service Plus* is an integrated program of expenditure necessary for both the full array of existing services and enhancement of existing services to meet the targets of *Waverley Together 2*. A summary of programmed expenditure is as follows. References are provided on where more detail can be accessed.

### 3.3.1 Base Layer Expenditures – Component 1 of *Service Plus*

Expenditures on existing services in the Base Layer – that is, expenditures for Component 1 of *Service Plus* – are set in the financial model to commence from their 2010/11 level, with an indexation applied annually thereafter that is, at minimum, equal to the CPI forecast by Access Economics as at September 2010.

Where expenditure increases throughout the years are applied at levels higher than CPI, this is stated in the assumptions of the Base Layer of LTFP3.1.

For specific assumptions of cost indices for the Base Layer, see **Attachment 4**, LTFP3.1, Chapter 3, Section 3.2.

Expenditures per service in the Base Layer are not scaled up from their current levels by anything other than these various indexations. In other words, no services have been enhanced in the Base Layer. Nor have any new services been created. There are 22 main service categories now and it is assumed there will be 22 at the end of the planning period.

Enhancements to the 22 service categories are assumed in the upper layers of the model. In those layers, two new subservices are being added – the Waverley Pavilion Sport and Active Recreation Centre (actually a renewal of the old Pavilion now demolished due to dilapidation) and the new Bondi Junction Early Learning and Care Centre, neither of which are the subject of the rate variation. When all layers of the model are taken into account, total subservices are assumed to grow from their current number of 148 to 150.

Total expenditure in the Base Layer over the full 12 years of *Waverley Together 2* from 2010/11 to 2021/22 inclusive will be $1.346 billion. For the remaining 11 years of the plan it will be $1.248 billion.

Applying the assumptions shown in Chapter 3 of LTFP3.1, the share of expenditure on each service in the Base Layer is as shown below:

| **Table 4 – Base Layer Expenditure per Service<br>Component 1 of *Service Plus*** | |
|---|---|
| **Service** | **Cost Next 11 Years 2011/12 to 2021/22 inclusive** |
| 1. Asset Management Services | 197,890,828 |
| 2. Beach Services, Maintenance & Safety | 33,733,538 |
| 3. Cemetery Services | 14,241,441 |
| 4. Child Care Services | 53,748,135 |
| 5. Community Services | 22,647,577 |
| 6. Corporate Support Services | 146,816,417 |
| 7. Cultural Services | 10,389,631 |
| 8. Customer Services & Communication | 16,546,386 |
| 9. Development, Building & Health Services | 98,715,448 |
| 10. Emergency Management Services | 1,441,407 |
| 11. Environmental Services | 13,260,278 |
| 12. Governance, Integrated Planning & Community Engagement | 54,738,668 |
| 13. Library Services | 58,426,745 |
| 14. Parking Services | 149,988,097 |
| 15. Parks Services & Maintenance | 57,260,228 |
| 16. Place Management | 17,971,027 |
| 17. Recreation Services | 21,033,683 |
| 18. Regulatory Services | 13,942,640 |
| 19. Social & Affordable Housing | 9,011,903 |
| 20. Traffic & Transport Services | 5,352,342 |
| 21. Urban Open Space Maintenance & Accessibility | 72,902,565 |
| 22. Waste Services | 178,256,288 |
| **Total** | **$1,248,315,272** |

The shortfall of funding for Base Layer expenditures over the remaining 11 years of *Waverley Together 2* is $84,901,750 or 6.8%. A rate variation of 6.91% over 7 years is required to fund this shortfall.

### 3.3.2 Upper Layer Expenditures – Components 2 to 12 of *Service Plus*

**Attachment 4**, LTFP3.1, Financial Table 1, provides a list of all operational and capital expenditures for items in Components 2 to 12 of *Service Plus*.

Not all expenditures in the upper layers of LTFP3.1 are intended to be funded by the rate rise. The following tables show the extent of expenditures that are intended to be covered by the rate rise. In some cases, items listed actually cost more than is shown here; but they have funding from other sources to make up the extra cost. Where this is the case, it is marked by a footnote.

In some other cases expenditures are partly or wholly recovered (or even over-recovered) from new user charges made possible by the investment of extra rates. Where this is proposed, it likewise is marked by a footnote. Net results in the layers take into account the income/saving from those marked items.

| Table 5 – *Service Plus* Component Items in the Sustainable Assets Layer to be funded by rate rises | | Cost to be funded by the rate rise |
|---|---|---|
| | ***Service Plus* Component 4** | |
| **4a** | 10% increase in proportion of footpaths kept in top condition | $3,683,634 |
| **4c** | Retaining walls backlog renewals | $4,823,895 |
| **4d** | Parks infrastructure backlog renewals | $8,105,024 |
| **4e** | Cemetery infrastructure backlog renewals[3] | $7,714,552 |
| **4f** | Stairs, fences bus shelters backlog renewals | $513,315 |
| **4g** | Build reserves to deal with planned renewals & expected failures in stormwater drainage systems | $8,670,045 |
| | ***Service Plus* Component 7** | |
| **7a** | Parks landscapes upgrades | $1,305,599 |
| **7f** | Street trees improved | $1,305,599 |
| | | |
| | **Total expenditure in the layer on items included in the rate rise** | **$36,121,663** |
| | **Total net cost of the layer after savings / income** | **$35,014,454** |

| Table 6 – *Service Plus* Component Items in the Sustainable Environment Layer to be funded by rate rises | | Cost to be funded by the rate rise |
|---|---|---|
| | ***Service Plus* Component 10** | |
| **10a** | Council buildings meet greenhouse reduction targets[4] | $670,371 |
| **10b** | Street lighting luminaires retrofitted | $246,132 |
| **10c** | Other greenhouse – climate change adaptation | $101,023 |
| **10d** | Other greenhouse – community targets, brokering retrofits / decentralised energy[5] | $3,799,796 |
| **10e** | Other greenhouse – general | $3,501,429 |
| **10f** | Other greenhouse – transport (including bike paths) | $3,539,942 |
| **10g** | Waste targets – community | $45,000 |
| | ***Service Plus* Component 11** | |
| **11a** | Water efficiency improvements on Council assets[6] | $1,637,776 |
| **11b** | Water efficiency improvements by the community | $1,969,299 |
| **11c** | Flora and fauna enhancement | $7,276,615 |
| **11d** | Water quality improvements | $92,290 |
| **11e** | Environmental education | $37,256 |
| | | |
| | **Total expenditure in the layer on items included in the rate rise** | **$22,916,929** |
| | **Total net cost of the layer after savings / income** | **$20,202,737** |

[3] Expenditure on cemetery infrastructure renewal is partly offset by cemetery operational income. This reduces the net cost of the layer by $1,107,209.
[4] Capital outlays funded by the rate rise are more than recovered over time by savings on energy bills. These savings have reduced the net cost of the layer by $1,219,192.
[5] Operational costs in the Sustainable Environment Layer funded by the rate rise are partly offset by use of domestic waste reserves on projects which reduce greenhouse gas emissions caused by disposal of domestic waste to landfill. This has reduced the net cost of the layer by $795,000.
[6] Capital outlays funded by the rate rise are partly recovered over time by savings on water bills. These savings have reduced the net cost of the layer by $700,000.

| Table 7 – *Service Plus* Component Items in the Operational Enhancements Layer to be funded by rate rises | | Cost to be funded by the rate rise |
|---|---|---|
| ***Service Plus* Component 5** | | |
| **5a** | Traffic Engineer x 1 | $1,293,115 |
| ***Service Plus* Component 6** | | |
| **6a** | 2nd person at Seniors' Centre x 1 | $873,629 |
| **6b** | Outreach Worker x 1 | $808,615 |
| **6c** | Cemetery funeral business[7] | $148,908 |
| ***Service Plus* Component 7** | | |
| **7a** | Extra landscape maintenance - plants & materials | $1,832,820 |
| **7b** | Gardeners x 3 | $3,054,282 |
| **7c** | Tree maintenance staff x 1 | $680,191 |
| **7e** | Increased graffiti removal | $652,800 |
| **7f** | Tree Compliance Officer x 1 | $968,295 |
| ***Service Plus* Component 9** | | |
| **9a** | Extra Rangers x 2 | $2,545,235 |
| ***Service Plus* Component 12** | | |
| **12a** | 2IC Computer Services x 1, Computer support x 1 | $2,377,281 |
| **12b** | Governance and integrated planning x 1 | $863,476 |
| **12c** | Support for BJ and BB Place Managers x 1 | $808,615 |
| **12d** | Senior Records officer x 1, Records officer x 1 | $2,133,900 |
| **12e** | Records compliance hardware and software | $33,000 |
| **12f** | Financial Accounting x 1 | $1,262,495 |
| **12g** | ePlanning x 1, ePlanning x 1 | $2,602,152 |
| | | |
| | **Total net cost of the layer** | **$22,938,809** |

[7] Entry of Waverley Cemetery to the funeral industry is to be fully offset by operational income. However, there is a small shortfall in the planning period which will be remedied later. This has increased the net cost of the layer by $148,908. The Cemetery makes positive contribution overall in the model towards reduction of the required rate variation. See note 3 for the Sustainable Assets Layer above. This contribution is $1,107,209.

| Table 8 – *Service Plus* Component Items in the Capital Enhancements Layer to be funded by rate rises | | Cost to be funded by the rate rise |
|---|---|---|
| ***Service Plus* Component 2** | | |
| **2b** | Playground upgrades | $450,000 |
| **2c** | Tamarama Park Plan of Management works | $630,000 |
| **2d** | Bronte Park Plan of Management works | $500,000 |
| **2e** | Waverley Park Plan of Management works | $790,000 |
| **2f** | Bondi Park Plan of Management works | $3,000,000 |
| **2g** | Rodney Reserve enhanced facilities | $1,400,000 |
| **2h** | Hugh Bamford Park upgrade to buildings and fields | $1,600,000 |
| ***Service Plus* Component 3** | | |
| **3b** | Structural renewal of Bondi & Bronte Beach Promenades | $5,000,000 |
| **3h** | QED tunnels and storage space remediation | $3,750,000 |
| **3j** | Develop Bondi Beach Pedestrian Access and Mobility Plan[8] | $45,290 |
| ***Service Plus* Component 7** | | |
| **7j** | Cost of acquisition of land for open space in Bondi Junction which Council is likely to be compelled to acquire[9] | $3,700,000 |
| **8a** | Local village improvements | $3,000,000 |
| | | |
| | **Total net cost of the layer** | **$23,865,290** |

- Expenditures in Layers 2 to 6 of LTFP3.1 for Components 2 to 12 of *Service Plus* are listed in Financial Table 1 of LTFP3.1 at **Attachment 4**, alongside income and cost offsets.

### 3.3.3 Upper Layers – Expenses that are not the subject of the rate rise

Like the Base Layer, Components 2 to 12 in the Upper Layers of LTFP3.1 contain a range of capital and operating expenditures totalling $212,384,322 that are **not** the subject of the rate rise.

The expenditures that are either not funded at all by the rate rise or only partly funded by the rate rise are:

| Layer | Item Excluded from the Rate Variation | Funded by |
|---|---|---|
| Investment Strategy | Eastgate Car Park office conversion project and associated operating costs | Wholly funded by asset sales and operating income |
| Investment Strategy | Eastgate Car Park associated façade upgrade | Wholly funded by asset sales |
| Investment Strategy | Waverley Pavilion and associated operating costs | Wholly funded by asset sales, grants and operating income |
| Investment Strategy | Bondi Junction Early Learning and Care Centre and associated operating costs | Wholly funded by asset sales, grants and operating income |

[8] Expenditure on development of the Bondi Beach pedestrian access and mobility program is estimated at $200,000. This is partly offset by developer contributions. However, the rate rise is required to fund a shortfall of $45,290 for this project.
[9] Council is likely to be compelled to acquire residential land which is currently zoned open space in Bondi Junction. The rate rise does not fully fund this potential issue. This is not a matter over which Council is likely to have discretion. In the event we are compelled to acquire the land, loan funding is likely to be utilised and repaid by funds from the rate variation.

| Layer | Item Excluded from the Rate Variation | Funded by |
|---|---|---|
| Investment Strategy | New central works depot and any associated works depot projects | Wholly funded by asset sales |
| Investment Strategy | Bondi Pavilion renewal works | Partly funded by asset sales and partly funded by Base Layer building maintenance expenditures |
| Sustainable Environment | Council buildings meet greenhouse gas reduction targets | Wholly funded by savings in energy costs (but upfront outlay may be funded by the SRV and recovered later) |
| Sustainable Environment | Other greenhouse – community targets, brokering retrofits / decentralised energy | Partly funded by domestic waste reserves and partly funded by the rate variation |
| Sustainable Environment | Water efficiency improvements on Council assets | Partly funded by savings in water costs and partly funded by the rate variation |
| Sustainable Environment | Community waste reduction target projects | Wholly funded by domestic waste reserve funds |
| Operational Enhancements | Cemetery funeral operations | Funded by operating income generated from entry into the funeral industry with a small shortfall to be repaid after the planning period |
| Capital Enhancements | Bondi Junction pedestrian access and mobility plan implementation | Wholly funded by developer contributions |
| Capital Enhancements | Bondi Beach pedestrian access and mobility plan implementation | Partly funded by developer contributions and partly funded by the rate variation |
| Capital Enhancements | Bondi Beach pedestrian access and mobility plan implementation | Wholly funded by developer contributions |
| Capital Enhancements | Tamarama/Bronte 40km per hour zone | Wholly funded by developer contributions |
| Capital Enhancements | Bondi Junction 40km per hour zone | Wholly funded by developer contributions |
| Capital Enhancements | School zones safety program | Wholly funded by developer contributions |
| Capital Enhancements | Oxford Street East streetscape upgrade | Wholly funded by developer contributions |
| Capital Enhancements | Public toilets upgrade | Wholly funded by developer contributions |
| Capital Enhancements | Waverley Cemetery Pavilion construction | Wholly funded by loans to be repaid from funeral business operating income |

### 3.3.2 Total expenditure shortfalls and funds being sought

It is intended that the rate variation should cover shortfalls in the Base Layer for expenditure on existing services plus any other unfunded expenditures arising from the additional layers. All layers have a net shortfall, except the Investment Strategy Layer, which is net positive by $352,684.

No rate rise is required for any item in the Investment Strategy Layer and works in this layer are not the subject of the rate rise. Instead the Investment Strategy Layer reduces the shortfall in the Base Layer slightly. Shortfalls in each layer are as follows:

**Table 9 – Total shortfalls for *Service Plus* 2011/12 to 2021/22 inclusive**

| Layer | Net Shortfall / (Surplus) | Cumulative Shortfall |
|---|---|---|
| Base Layer | $84,901,750 | $84,901,750 |
| Investment Strategy Layer | ($352,684) | $84,549,065 |
| Sustainable Assets Layer | $35,014,454 | $119,563,520 |
| Sustainable Environment Layer | $20,202,737 | $139,766,257 |
| Operational Enhancements Layer | $22,938,809 | $162,705,066 |
| Capital Enhancements Layer | $23,865,290 | $186,570,356 |

Average annual rate rises over 7 years necessary to bridge the shortfalls in each layer are as follows

**Table 10 – Total shortfalls for *Service Plus* 2011/12 to 2021/22 inclusive and corresponding rate rise required to resolve shortfalls**

| Layer | Cumulative Shortfall | Cumulative Rate Variation Annual Average % Rise |
|---|---|---|
| Base Layer | $84,901,750 | 6.91% |
| Investment Strategy Layer | $84,549,065 | 6.89% |
| Sustainable Assets Layer | $119,563,520 | 8.44% |
| Sustainable Environment Layer | $139,766,257 | 9.28% |
| Operational Enhancements Layer | $162,705,066 | 10.20% |
| Capital Enhancements Layer | $186,570,356 | 11.12% |

The above quoted rate rises are average percentage increases over the 7 year period of the variation. However, variations are not proposed to apply in uniform % increases but in relatively smooth even $ increases or declining percentages, starting higher than 11.12% and ending lower.

### 3.3.3 Commentary on cost estimates

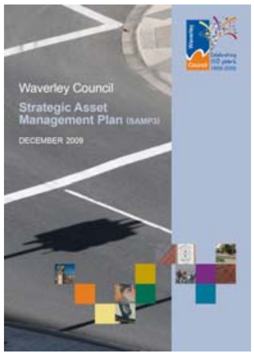
Analysis of the works expenditures proposed to be funded by the rate variation application shows that they are for:

- renewal of existing infrastructure, and
- improved operational efficiency of existing assets (eg., water and energy consumption reduction).

There is no creation of new capital items. The expenditures are for straightforward renewals of known structures.

For a breakdown of asset related expenditures beyond asset expenditures already included in the Base Layer, see **Attachment 4**, LTFP3.1, Financial Table 1.

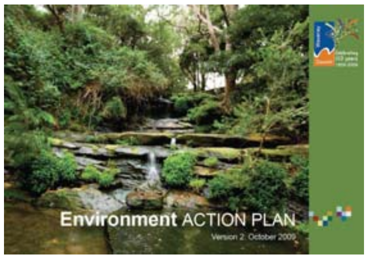
Cost estimates for works have been derived using best practice methods of asset renewal cost estimation. These have been reviewed by independent auditors, Morrison Low, who have confirmed that estimating methodologies are reasonable. They have also suggested that the resultant reduced estimates for asset renewal should translate into a reduction of depreciation costs in future. Work is yet to be done to revise depreciation to bring it into line with the lower cost estimates derived from our methodology. Progressive validation of the estimating methodologies over 5 years has resulted in a high confidence level that the expenditures programmed for infrastructure assets are reasonable.




Feasibility of delivery of works programs is only limited by availability of funds.

Full details of costs for delivery of Council's Strategic Asset Management Plan SAMP3 to 2022 are available at the following web link. This document is too big to attach but can be easily downloaded.

http://www.waverley.nsw.gov.au/__data/assets/pdf_file/0014/12380/StrategicAssetManagementPlan3.pdf




Operational and Capital expenditures in the Sustainable Environment Layer and Base Layer are detailed throughout Environmental Action Plan 2.

Environmental Action Plan 2 is at **Attachment 11**.


Cost estimates for labour additional to labour in the Base Layer are broken down in LTFP3.1 Financial Table 1 and in **Table 7** above for the Operational Enhancements Layer. Cost estimates for these staff are based on current job evaluation system pay rates, which can be less than the market rate payable. Labour in the Operational Enhancements Layer is only escalated at CPI. Labour increases required per service for the first 4 years are detailed in the *Workforce Plan 2010-2014*.

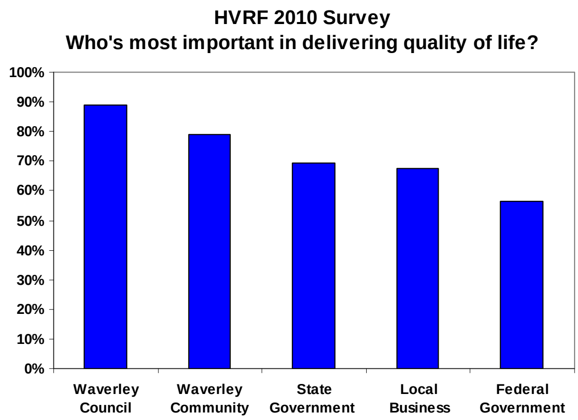
### 3.4 Impact on financial sustainabilty

As stated in Section 3.2 above, summary results for Waverley's two scenarios are:

| Scenario 1: | Result | |
|---|---|---|
| The LGCI applies | A shortfall of $84,901,750 for the Base Layer will prevail | Existing services will need to be cut to achieve average annual savings equivalent to approximately 7% of current budget |

| Scenario 2: | Result | |
|---|---|---|
| Council's application for a Special Rates Variation is approved | A shortfall of $186,570,356 for all 6 layers of LTFP3.1 will be reduced to zero | Full implementation of *Service Plus* can be achieved |

In the event that the rate rise is not approved, the practical reality is that services will be cut to balance the budget and Council will seek to partner with the community, local businesses and other levels of Government to enjoin them to help fill the gap left in the community's capacity to achieve their targets for *Waverley Together 2* by 2022. That gap will be a large one and research shows that the community is not highly confident that partners would step in to fill it. Instead they see Council as their key partner in delivery of the vision of *Waverley Together 2*.




**Scenario 1: If the rate variation is not approved**, deficits shown below would occur unless Council deleted services to bring the budget into balance. Financial results for **Scenario 1** are:

| **Table 11<br>Budget (Deficits) Arising from Continued Delivery of Existing Services<br>Without the Rate Variation – Scenario 1** | |
|---|---|
| 2011/12 | ($392,665) |
| 2012/13 | ($3,242,426) |
| 2013/14 | ($3,068,182) |
| 2014/15 | ($5,350,436) |
| 2015/16 | ($6,217,211) |
| 2016/17 | ($7,435,208) |
| 2017/18 | ($8,595,044) |
| 2018/19 | ($10,854,878) |
| 2019/20 | ($12,028,606) |
| 2020/21 | ($13,393,600) |
| 2021/22 | ($14,323,493) |
| **Shortfall over 11 years** | **($84,901,750)** |

**Scenario 2: If the rate variation *is* approved** shortfalls for *Service Plus* are resolved to zero over the remaining 11 year period of *Waverley Together 2*. Financial results for **Scenario 2** are shown in **Table 12** below.

The model is currently showing that with the application of the recommended declining % rate increases there will be some years where deficits are experienced. As stated above though, these are resolved to zero by 2022.

| Table 12<br>Budget Surpluses (Deficits) Arising from Proposed Distribution of Rate Rises<br>Scenario 2 | | |
|---|---|---|
| **Year** | **Rate increase compared to previous year** | **Surpluses (Deficits)** |
| 2011/12 | 14.5% | ($4,294) |
| 2012/13 | 13.5% | $0 |
| 2013/14 | 12.5% | ($512,210) |
| 2014/15 | 11.5% | ($377,735) |
| 2015/16 | 10.5% | ($174,953) |
| 2016/17 | 8.67% | $527,414 |
| 2017/18 | 2.22% | 1,292,583 |
| 2018/19 | 2.44% | ($840,494) |
| 2019/20 | 2.79% | $120,765 |
| 2020/21 | 2.79% | ($37,008) |
| 2021/22 | 2.79% | $5,932 |
| **Shortfall over 11 years** | | **$0** |

Deficits in individual years will be revised as time passes with appropriate cash flow planning and will be reported in the normal budget reporting framework to Council.

- A breakdown of income and expenditures for both Scenario 1 and 2 and financial results after loans and transfers to and from reserves is provided in **Attachment 4** LTFP3.1 Financial Tables 2, 3 and 4.

- Key assumptions that underpin LTFP3.1 and the special rate variation are provided in detail in **Attachment 4** as follows:

  - Assumptions for the Base Layer - Chapter 3, Section 3.2
  - Assumptions for the Investment Strategy Layer - Chapter 4, Section 4.3
  - Assumptions for the Sustainable Assets Layer - Chapter 5, Section 5.3
  - Assumptions for the Sustainable Environment Layer - Chapter 6, Section 6.3
  - Assumptions for the Operational Enhancements Layer - Chapter 7, Section 7.3
  - Assumptions for the Capital Enhancements Layer - Chapter 8, Section 8.3

### 3.4.1 Variations for capital expenditure

Does the application relate to infrastructure investment, whether for new assets or maintaining existing assets?

Yes [X] No [ ]

Does the purpose of the proposed special variation require that a capital expenditure review be undertaken by Council in accordance with Council circular 97/55?

Yes [ ] No [X]

If yes, has a review been undertaken?

Yes [ ] No [ ] NA [X]

If yes, has Council submitted this to the DLG?

Yes [ ] No [ ] NA [X]

### 3.4.2 Impact of special variation on key performance indicators

In terms of their effect on key financial performance indicators results for Scenario 1 and 2 are:

**Table 13 – Key performance indicators – Scenario 1**
**Existing services are maintained at their current levels of output but *without* a Special Rates Variation**

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|---|
| Operating balance ratio | -5.88% | -6.28% | -7.46% | -6.72% | -6.16% |
| Unrestricted current ratio | 2.63 : 1 | 2.55 : 1 | 2.04 : 1 | 1.91 : 1 | 1.76 : 1 |
| Rates and annual charges outstanding ratio | 3.10% | 3.10% | 3.10% | 3.10% | 3.10% |
| Debt service ratio | 1.48% | 1.30% | 1.38% | 0.82% | 0.64% |
| Broad liabilities ratio | 49.77% | 46.45% | 43.01% | 38.01% | 35.99% |
| Asset renewal ratio | 105.71% | 79.68% | 91.96% | 53.60% | 69.79% |

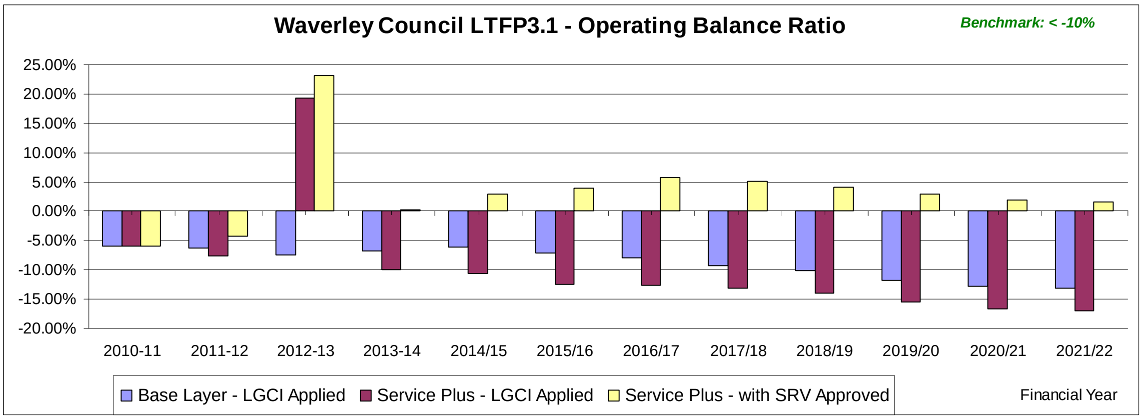
**Table 14 – Key performance indicators – Scenario 2**
**Existing services are maintained at their current levels of output and services are enhanced as per the full *Service Plus* but *with* the requested full Special Rates Variation**

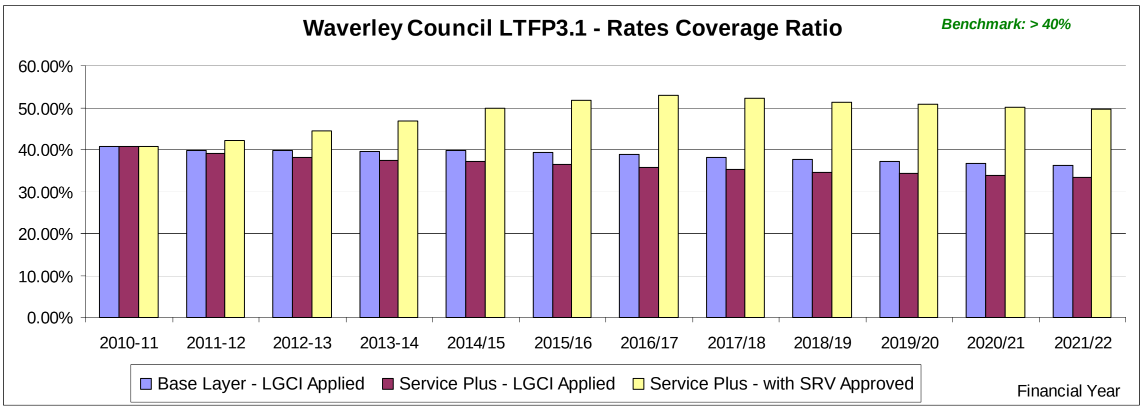
| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|---|
| Operating balance ratio | -5.90% | -4.23% | 23.17% | 0.30% | 2.89% |
| Unrestricted current ratio | 2.02: 1 | 1.72: 1 | 3.62: 1 | 2.62: 1 | 2.09: 1 |
| Rates and annual charges outstanding ratio | 3.10% | 3.10% | 3.10% | 3.10% | 3.10% |
| Debt service ratio | 1.45% | 1.25% | 1.41% | 0.49% | 0.68% |
| Broad liabilities ratio | 49.29% | 45.21% | 44.85% | 39.57% | 34.58% |
| Asset renewal ratio | 208.31% | 124.51% | 137.17% | 264.44% | 199.41% |

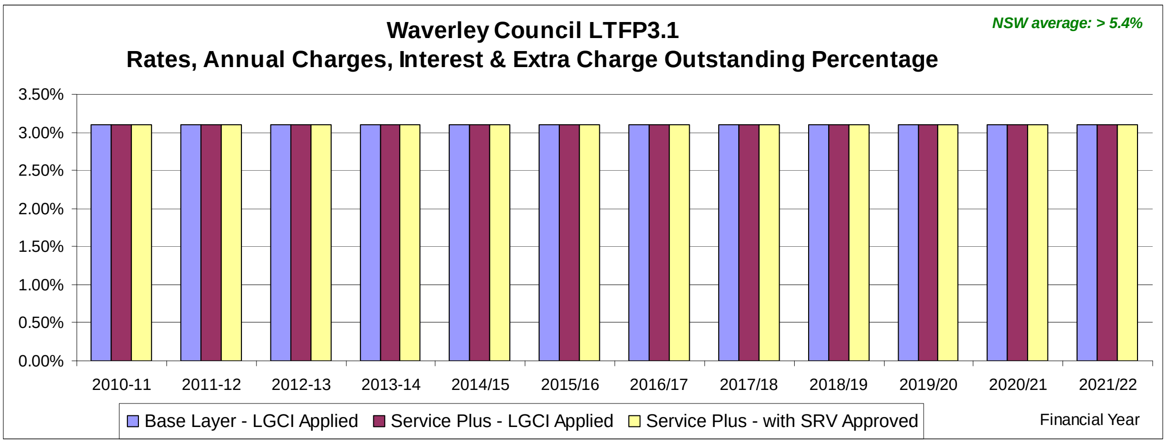
Results in these scenarios are as shown above for the indicators requested in the application form. However, Waverley notes that these indicators do not include indicators of financial sustainability used by IPART including the Rates Coverage Ratio and the Capital Expenditure Ratio.

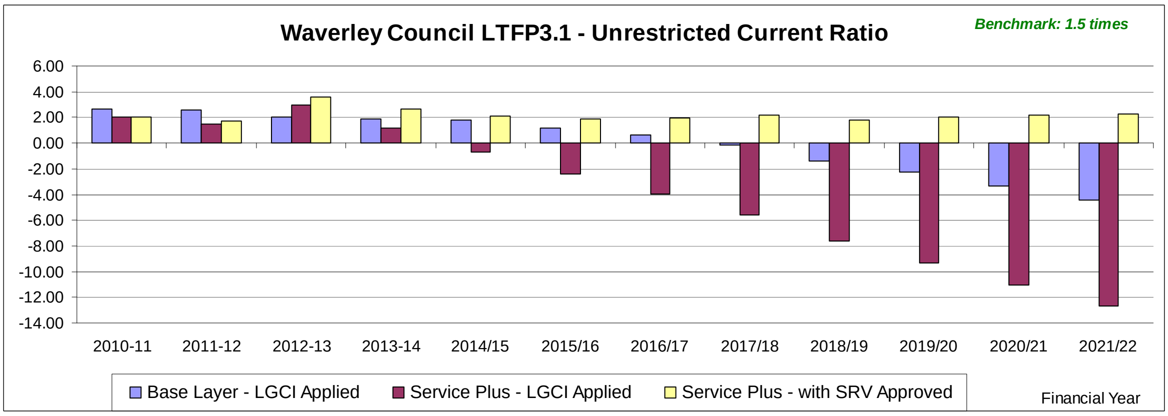
The Rates Coverage Ratio is particularly relevant for Waverley, as already mentioned. Results for these are presented graphically. Waverley is extremely concerned that unless something is done to correct the rates coverage ratio issue financial unsustainability will commence immediately.

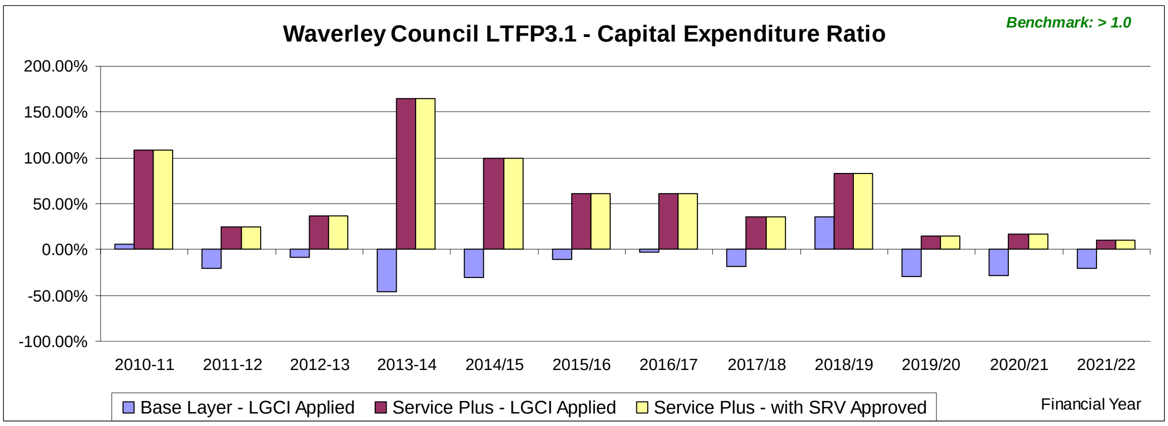
Results of the scenarios on all financial performance indicators can be shown graphically as follows. Note that the rather odd looking positive result on the operating balance in 2012/13 for the full *Service Plus* with the LGCI (without a rate variation) is a result of the sale of Council's central works depot at Waterloo. The depot is in the City of Sydney's Green Square re-development area and is set to be zoned residential under the Green Square LEP. Waverley will be required to re-locate and build a new depot elsewhere.

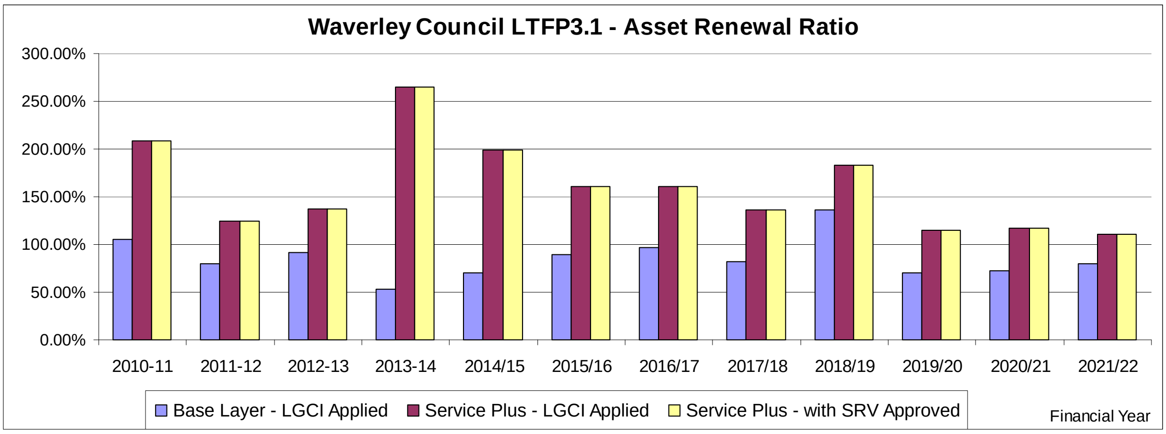


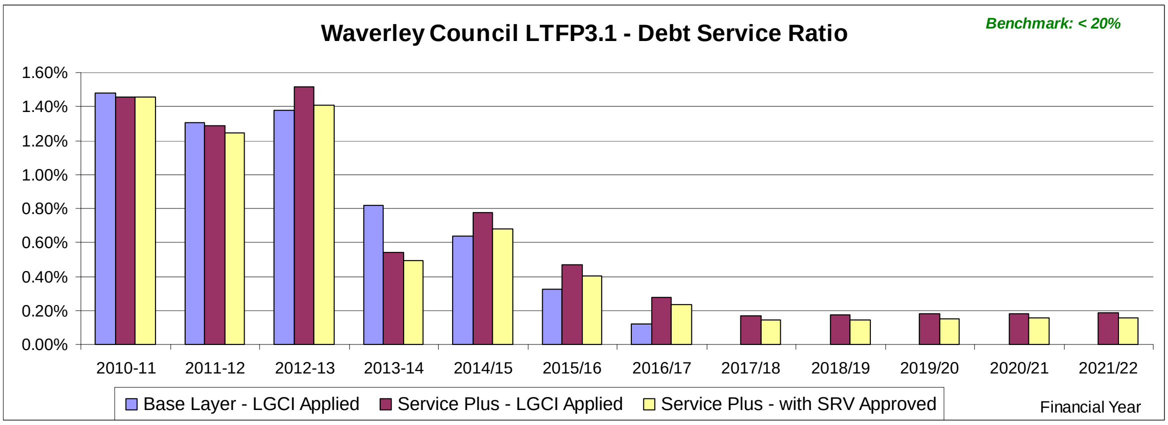



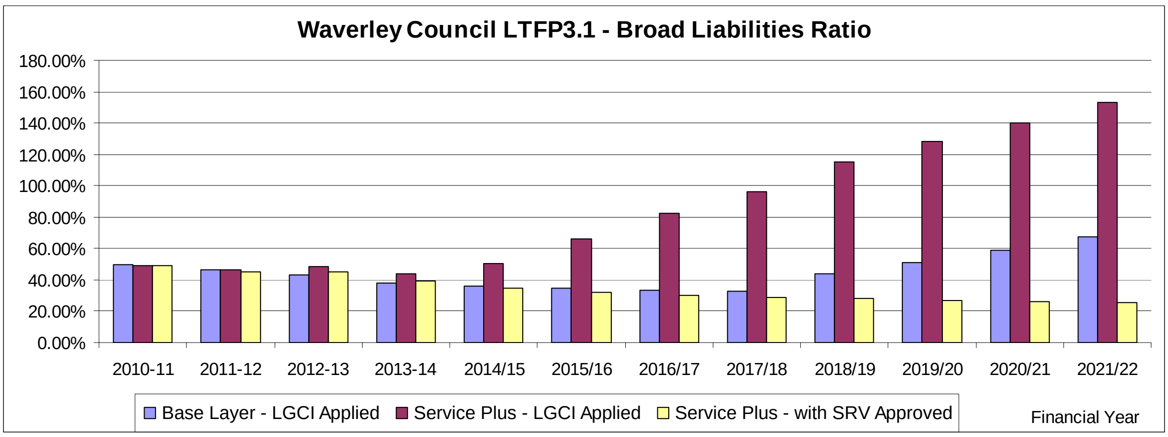

Waverley Council LTFP3.1
Rates, Annual Charges, Interest & Extra Charge Outstanding Percentage
NSW average: > 5.4%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
2010-11
2011-12
2012-13
2013-14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
Base Layer - LGCI Applied
Service Plus - LGCI Applied
Service Plus - with SRV Approved
Financial Year


Waverley Council LTFP3.1 - Unrestricted Current Ratio
Benchmark: 1.5 times
6.00
4.00
2.00
0.00
-2.00
-4.00
-6.00
-8.00
-10.00
-12.00
-14.00
2010-11
2011-12
2012-13
2013-14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
Base Layer - LGCI Applied
Service Plus - LGCI Applied
Service Plus - with SRV Approved
Financial Year


Waverley Council LTFP3.1 - Capital Expenditure Ratio
Benchmark: > 1.0
200.00%
150.00%
100.00%
50.00%
0.00%
-50.00%
-100.00%
2010-11
2011-12
2012-13
2013-14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
Base Layer - LGCI Applied
Service Plus - LGCI Applied
Service Plus - with SRV Approved
Financial Year


Waverley Council LTFP3.1 - Asset Renewal Ratio
300.00%
250.00%
200.00%
150.00%
100.00%
50.00%
0.00%
2010-11
2011-12
2012-13
2013-14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
Base Layer - LGCI Applied
Service Plus - LGCI Applied
Service Plus - with SRV Approved
Financial Year


Waverley Council LTFP3.1 - Debt Service Ratio
Benchmark: < 20%
1.60%
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
2010-11
2011-12
2012-13
2013-14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
Base Layer - LGCI Applied
Service Plus - LGCI Applied
Service Plus - with SRV Approved
Financial Year


Waverley Council LTFP3.1 - Broad Liabilities Ratio
180.00%
160.00%
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
2010-11
2011-12
2012-13
2013-14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
Base Layer - LGCI Applied
Service Plus - LGCI Applied
Service Plus - with SRV Approved
Financial Year

## 4. Community consultation

In the last 3 years Waverley Council has engaged in what has been independently acknowledged as one of the most comprehensive and collaborative consultation programs undertaken for development of a fully integrated suite of plans aimed at securing agreed QBL outcomes over a viable period at the lowest long run cost. Independent auditors, Morrison Low, have stated that:

> *We congratulate Waverley Council on its integrated planning process. The Council's Integrated Plans are amongst the best we have reviewed. The Council has consulted extensively and creatively. The engagement results have been validated, are shared with the community and integrated through Community Strategic Plan, Delivery Plan and Resourcing Strategies. We have noted some suggested improvements for any future revisions of the Integrated Plan, although these improvements are relatively minor in nature.*

*Morrison Low Integration Review and LTFP Review*
*December 2010*

Waverley takes integrated planning very seriously and has engaged the community deeply not just on the Community Strategic Plan but on the Resourcing Strategy as well. Peer acknowledgement of the high standard and innovation of our engagement strategy is evident in the fact that Waverley is routinely asked to address and assist other councils on this within and beyond New South Wales. Waverley has assisted at least 50 other councils in the last 18 months to develop integrated plans supported by strong community engagement.

The following section outlines the scope of consultation undertaken for development of *Waverley Together 2* during 2009 and confirmation of the Resourcing Strategy in 2010.

Access to the full details of consultation can be provided by following this link:

http://www.waverley.nsw.gov.au/have_a_say/funding_the_future_-_council_services_2010-22

### 4.1 The consultation strategy

Waverley's community engagement strategy for its integrated plans has been conducted over 2 years in 2 major stages:

- the 2009 engagement strategy – for development of *Waverley Together 2*:

  See **Attachment 6**, Report on the Integrated Engagement Strategy for *Waverley Together 2*, September 2009

- the 2010 engagement strategy – *Funding the Future* – for:

  - confirmation of community support for the Vision of *Waverley Together 2*;
  - confirmation of *Service Plus* as the appropriate service and works program for Council in delivery of the Vision; and
  - confirmation of the most efficient and effective Resourcing Strategy for the adopted *Waverley Together 2*

During the 2009 integrated engagement strategy for development of *Waverley Together 2*, Council spent considerable time explaining to the community that financial shortfalls would be expected for continuation of Council's existing service array from 2011/12 onwards unless alternative sources of income could be found. As a result of this financial awareness the community was asked several times during the 2009 consultation process if they would prefer to cut services as a means of balancing the budget.

Regardless of whether participating community members were told nothing, a little, or a lot about this shortfall and its size, they unanimously rejected service cuts as a means of balancing the budget.

- See **Attachment 6**, Report on the Integrated Engagement Strategy for *Waverley Together 2*, September 2009.

Instead, the overwhelming message from the consultation was that people wanted to enhance services rather than decrease them.

Accordingly, Council adopted *Waverley Together 2* in February 2010 knowing that there were financial shortfalls for the services that would be necessary from Council for achievement of the targets of the plan but knowing also that the targets set in the plan were the minimum requested by the community.

This awareness of shortfalls caused Council to conduct a major review of its financial structure.

- See **Attachment 16**, for the report on this review, *Funding the Future: Waverley Council Review of Financial Structure 2010 to 2022.*

And this review in turn recommended that a second round of consultation – the 2010 *Funding the Future* consultation program – be undertaken to determine:

- the importance of the Vision of *Waverley Together 2* to the Waverley community,
- the perceived value, affordability and effectiveness of ***Service Plus*** as a means of contributing to achievement of the Vision,
- the attitude of the community to changing the financial structure of their Council to achieve long term financial sustainability and service security, and
- the attitude of the community to increasing rates.

The results of the 2010 *Funding the Future* consultation program are particularly relevant to and supportive of Council's application for a rate variation as follows.

### 4.1.1 Funding the Future Consultation Program

The Funding the Future consultation program was developed on the basis of the following general recognition by Council:

> *Councillors of Waverley know that it is not possible to promise services into the future with the current income structure. But they want to know whether the community's support for these services, so clearly displayed in surveys to date, will diminish or prevail when told the cost of each choice – the cost in terms of a rate rise, in terms of the long run, and in terms of service loss.*

*Preamble to Waverley Council Review of Financial Structure 2010 to 2022*

The *Funding the Future* consultation program was accordingly designed around providing the community with a range of comprehensive but accessible information and then asking some straightforward questions framed around 3 main choices of:

1. reducing services, or
2. maintaining services at existing levels, or
3. enhancing services.

Respondents who preferred to maintain or enhance services were then presented with choices about whether they wished to fund the future by:

1. either increasing rates, or
2. increasing other forms of income, or
3. increasing income from a combination of sources.

Respondents who preferred not to increase income were able to express preferences for service cuts or savings (eg., from efficiency) as they saw fit.

To ensure a very expansive reach into the community, a broad based communications program was designed including:

- distribution of summary information in a brochure and a newsletter form (with details on how to contact Council) to every household, twice;
- a widely advertised web forum asking for responses to questions about:
    - the importance of the vision of *Waverley Together 2*,
    - the importance of Council's services,
    - preferences for increasing income versus cutting services,
    - preferences for raising variable income, and
    - preferences for raising rates;
- other web-based dialogue on Facebook, Twitter and local media blogs such as *Streetcorner* and the *Wentworth Courier*;
- media interviews which gave the pros and cons of each option in a balanced way and facilitated further blogging;
- a full briefing of the local State Government Member of Parliament (Paul Pearce);
- a full briefing to all Council staff;
- two community open days;
- an open information evening; and
- detailed presentations by senior staff to every Precinct meeting (except one which chose to attend the information evening instead).

Media coverage of the program was very wide and had unusual depth for an issue of this type:

- The issue was published as the full front page item in the *Wentworth Courier* with 4 pages of detailed commentary from key stakeholders. The *Wentworth Courier* is read weekly by more than 75% of Waverley residents on average.
- Commentators published follow up opinion pieces and letters in the *Wentworth Courier* which were variously supportive and not supportive of a rate rise.
- A major article in the *Sunday Telegraph* appeared under the large banner headline of "Rates to rise by 120%".
- Several articles and blogs appeared on *Streetcorner*, again variously supportive and not supportive of a rate rise.


Wentworth Courier

Does Waverley Council really need to raise your rates?

In general, it would have been quite hard to miss the issue and not be aware of it. On the whole, media coverage would be said to be balanced. However, blogging associated with the coverage included some inaccurate information.

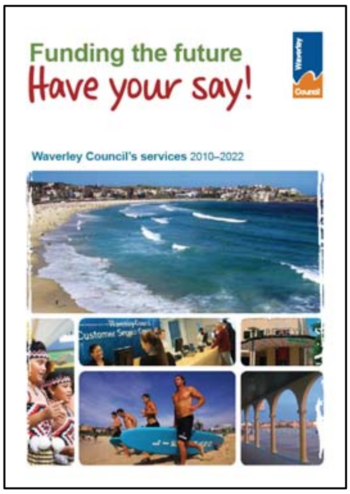
The program yielded a substantial amount of information about community preferences from two main groupings of respondents:

- a **self selected group** of approximately 1,150 of which 179 provided written comment; and

- a **randomly selected group** of 534 residents and ratepayers who were selected to participate in a **statistically valid community survey** of a fully representative demography (covering ages, genders, background, renters, residential property owners, business property owners, and low-end ratepayers through to high-end rate payers). This survey was independently conducted by the Hunter Valley Research Foundation (HVRF) and involved distribution of factual material prepared by HVRF to all respondents to ensure that the survey would yield information on the views of a population that had been adequately informed and had access to unbiased material.

The randomly selected statistically valid group were obliged to read the information distributed to them before the survey phone call. However, it is not known to what degree the self-selected group of respondents read Fact Sheets and other information to which they were directed. Suffice to say it was not compulsory for the self-selected group to read this information but for those responding to the statistically valid survey it was not possible to do the survey without having reference to the material provided by HVRF.

Factual information provided by Council to the general public included the following:




- an introductory high level brochure distributed to all households under the banner of Funding the Future;
- a web version of this same newsletter;
- a similar information item in Council's quarterly newsletter, *Waverley in Focus*, distributed to all households;
- a Frequently Asked Questions document;
- an 8-page summary version of *Waverley Together 2*;
- 11 Fact Sheets as follows:
  - Fact Sheet 1: Facts about *Service Plus*
  - Fact Sheet 2: Financial facts about *Service Plus*
  - Fact Sheet 3: Options for funding *Service Plus*
  - Fact Sheet 4: Effects of rate increases on households
  - Fact Sheet 5: Ten feature benefits of *Service Plus*
  - Fact Sheet 6: What you asked for in *Service Plus*
  - Fact Sheet 7: Life in Waverley without *Service Plus*
  - Fact Sheet 8: Effects of rate increases on businesses
  - Fact Sheet 9: Council's service obligations
  - Fact Sheet 10: How are council rates calculated?
  - Fact Sheet 11: Waverley Council's income and expenses
- a series of powerpoint presentations to precincts; and
- a powerpoint presentation on the pros and cons of every option for the Open Information Night held at the end of the consultation program.

The *Funding the Future* consultation program ran from 21 July to 31 October 2010. Results are provided in Section 4.2 below.

## 4.2 Funding the Future Consultation Program Results


Full details of the results of the 2010 HVRF survey and the comments and results of the self-selected respondents to Funding the Future are included in the report, *Funding the Future: Report on Outcomes of Community Consultation, December 2009*. This report is large and is not included in the attachments to this application. However, a full hard copy of the report has already been supplied to IPART. The report can also be accessed at the following web link:

http://www.waverley.nsw.gov.au/have_a_say/funding_the_future_-_council_services_2010-22/report_on_outcomes_of_community_consultation

### 4.2.1 Funding the Future – Statistically valid survey results

The results of the community engagement program for *Funding the Future* did not imply that residents' and ratepayers' support for services diminished when they were told the full cost of each choice – i.e., the cost in terms of a rate rise for them personally, the cost in terms of the long run cost increase, and the cost in terms of service loss.

In the statistically valid HVRF survey, residents and ratepayers were asked to rate the importance of Council's services on a scale of 1 to 5 where:

- 1 = very unimportant
- 2 = unimportant
- 3 = neither important nor unimportant
- 4 = important
- 5 = very important.

The results were basically no different to the previous statistically valid survey on the importance of services conducted in 2009 (also by HVRF) for preparation of *Waverley Together 2*.

In other words in the 2010 survey the Waverley community still rated all services as important or very important, giving all but one a score of more than 4 out of 5.

Amazing though it may seem, in all but the lower ranked services, the scores for importance either stayed the same or actually rose a little in the 2010 survey, compared to the 2009 survey where people were not told at all that they might have to pay more rates.

Support for services in the 2010 survey on the whole increased, despite the fact that people in this survey were told what it would cost them personally in rates to maintain existing services and enhance them. Surveys conducted included both residents and businesses.

See **Section 3a.1** above for results of both the 2009 and 2010 HVRF survey on the importance of Waverley Council's services.

The 2010 HVRF survey was conducted as a survey of informed residents and ratepayers and used a holistic "first principles" approach to gathering opinions, consistent with the Integrated Planning approach to community engagement. Respondents were asked about:

- whether the vision of *Waverley Together 2* reflects their ideal of life in Waverley;
- how important Council is in making the vision a reality, compared to other partners (i.e., other levels of Government, local businesses and the community itself);
- how optimistic they are that these partners can work together to achieve the vision;
- how important Council's current services are to achievement of the vision;
- how important enhancements to services may be in terms of achieving the vision;
- whether they think the information provided means that if the community doesn't want to pay for services now, it will cost more in the long run;
- whether they think, based on the information provided, that Council has done everything it can to identify alternative sources of income and cost savings;
- whether proposed rate rises (for them personally) for existing services are a reasonable price to pay;
- whether proposed rate rises (for them personally) for existing and enhanced services are a reasonable price to pay and are affordable[10];
- whether raising the necessary funds from other sources would be acceptable, i.e., from parking fees and fines;
- whether they would prefer to raise rates over 5, 7 or 10 years;
- whether they would prefer to have rates rising at even $ amounts each year or start smaller and get bigger (i.e., uniform $ increases versus uniform % increases);
- whether service cuts in their view would result in a reduced quality of life, and
- whether if Council's services had to be cut, they were confident that the other partners would step in to fill the gap in capacity to achieve the vision.

A number of other questions about attitudes to Council were also asked including:

- whether they were surprised by the information on Waverley's rates compared to other local councils; and
- whether, as a result of the engagement and survey process, they were more positive or not about:
  - the importance of Council's services,
  - the importance of Council's role in delivering a better lifestyle for the community,
  - Council as a trusted partner with the community in delivering a better lifestyle,
  - the value for money of Council's services, and
  - Council's performance in long term planning.

Results to all of the above can be summarised as follows:

**Table 15 – Preferences for Funding the Future**
**Summary of Results – Hunter Valley Research Foundation Survey 2010**

| Question | Response | |
|---|---|---|
| Whether the vision of *Waverley Together 2* reflects their ideal of life in Waverley | Yes it does – majority agreement | 87.8% |
| How important Council is in making the vision a reality, compared to other partners (other levels of Government, local businesses and the community itself) | Council is the most important partner | 88.8% |
| How optimistic they are that these partners can work together to achieve the vision; | Optimistic<br>Not optimistic | 55.4%<br>26.0% |
| How important Council's current services are to achievement | Important or very | 82.3% |

[10] The 2010 survey covered both renters and ratepayers. Renters were included due to the fact that they are entitled to use services and currently pay towards their cost via user charges. When participating in the survey, renters were asked to assume that rate increases would be passed on to them in full by landlords.

| Table 15 – Preferences for Funding the Future<br>Summary of Results – Hunter Valley Research Foundation Survey 2010 | | |
|---|---|---|
| **Question** | **Response** | |
| of the vision | important: average across services | |
| Range of importance of services<br>Ranking scale of 1 to 5 where 1 = very unimportant and 5 = very important | All services except one are important or very important[11] | Mean score of 4 or more out of 5 for all except one |
| How important enhancements to services may be in terms of achieving the vision | Important or very important: average across enhancements | 66.7% |
| Whether they think the information provided means that if the community doesn't want to pay for services now, it will cost more in the long run | Strong majority agreement | 74.5% |
| Whether they think, based on the information provided, that Council has done everything it can to identify alternative sources of income and cost savings | Agreement<br>Disagreement | 45.3%<br>41.0% |
| Whether proposed rate rises (for them personally) for existing services are a reasonable price to pay | Majority agreement<br>Disagreement | 63.3%<br>28.1% |
| Whether proposed rate rises (for them personally) for existing and enhanced services are a reasonable price to pay | Majority agreement<br>Disagreement | 52.3%<br>35.4% |
| Whether proposed rate rises (for them personally) for existing and enhanced services are affordable | Majority agreement<br>Disagreement | 54.1%<br>32.3% |
| Whether raising the necessary funds from other sources would be acceptable, i.e., from parking fees and fines | Majority disagreement<br>Agreement | 52.8%<br>35.3% |
| Whether they would prefer to raise rates over 5, 7 or 10 years | Over 10 years<br>Over 7 years<br>Over 5 years | 63.3%<br>21.3%<br>12.3% |
| Whether they would prefer to have rates rising at even $ amounts each year or start smaller and get bigger (i.e., uniform $ increases versus uniform % increases) | Strong majority for even $ amounts | 70.0% |
| Whether service cuts in their view would result in a reduced quality of life | Same quality of life<br>Worse quality of life<br>Better quality of life | 50.6%<br>45.7%<br>2.5% |
| Whether if Council's services had to be cut, they were confident that the other partners would step in to fill the gap in community capacity to achieve the vision | Not confident<br>Confident<br>Unable to decide | 37.4%<br>34.1%<br>27.7% |
| Whether they were surprised by the information on Waverley's rates compared to other councils | Surprised by low rates<br>Not surprised | 57.3%<br>36.1% |
| Whether, as a result of the engagement and survey process, they were more positive or not about: | | |
| ▪ the importance of Council's services | More positive<br>Same<br>More negative | 51.3%<br>40.6%<br>7.6% |

[11] The only service with an average rating of less than 4 out of 5 was "facilities for management of arts, entertainment and cultural events". This achieved a mean score of 3.7 out of 5. Nevertheless 64.5% of respondents still rated this service as important or very important, giving it scores of 4 or more out of 5.

| Table 15 – Preferences for Funding the Future<br>Summary of Results – Hunter Valley Research Foundation Survey 2010 | | |
|---|---|---|
| **Question** | **Response** | |
| ▪ the importance of Council's role in delivering a better lifestyle for the community | More positive<br>Same<br>More negative | 51.0%<br>39.1%<br>9.6% |
| ▪ Council as a trusted partner with the community in delivering a better lifestyle | More positive<br>Same<br>More negative | 45.7%<br>39.7%<br>13.3% |
| ▪ the value for money of Council's services | More positive<br>Same<br>More negative | 42.5%<br>43.4%<br>12.5% |
| ▪ Council's performance in long term planning | More positive<br>Same<br>More negative | 54.0%<br>31.5%<br>12.9% |

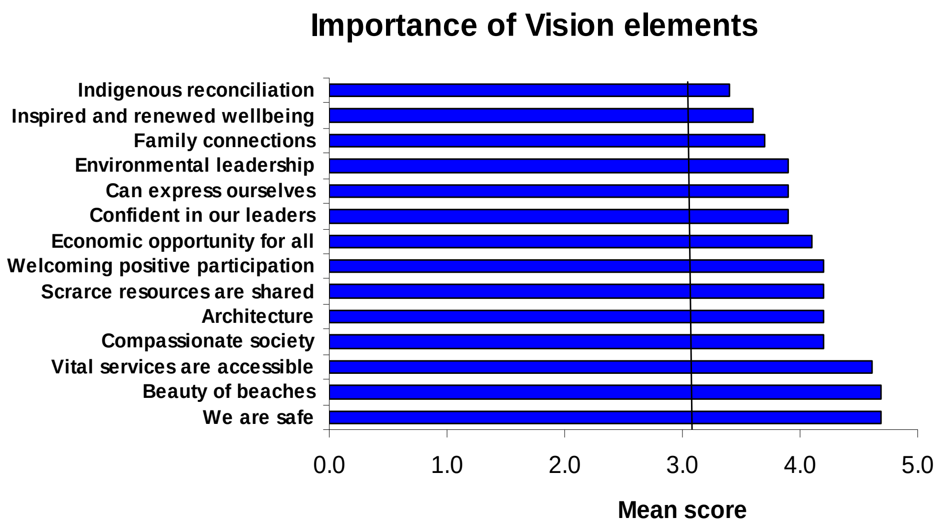
**In essence the results of the 2010 HVRF statistically valid survey:**

**a.** reinforced the views that had emerged in the 2009 survey and consultation program about the importance of services – in other words all Council's services were still considered to be important or very important by the vast majority of residents (82.3% agreement on average across the services) and ratepayers and several services actually increased in importance;

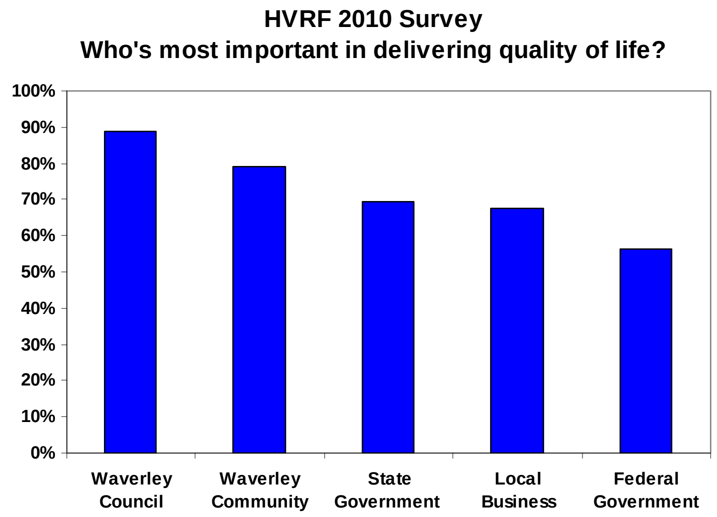
**b.** showed strong support for the adopted vision of Waverley in *Waverley Together 2* as a whole (87.8% agreement);

**c.** showed strong support for the 14 individual elements of the vision, in that a majority of respondents in every case rated each aspect of the vision as important or very important, i.e., a majority in every case gave each element of the vision a score of more than 4 out of 5 as shown below;

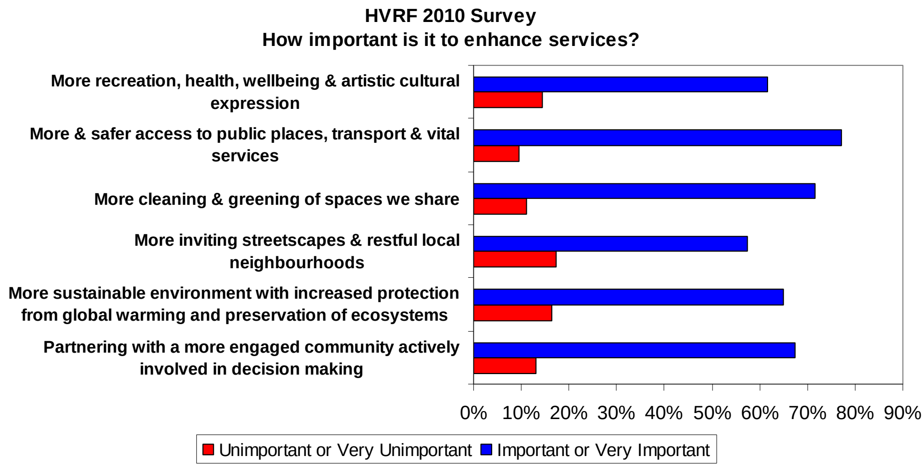
**Hunter Valley Research Foundation**
**Importance of Aspects of the Vision for *Waverley Together 2***



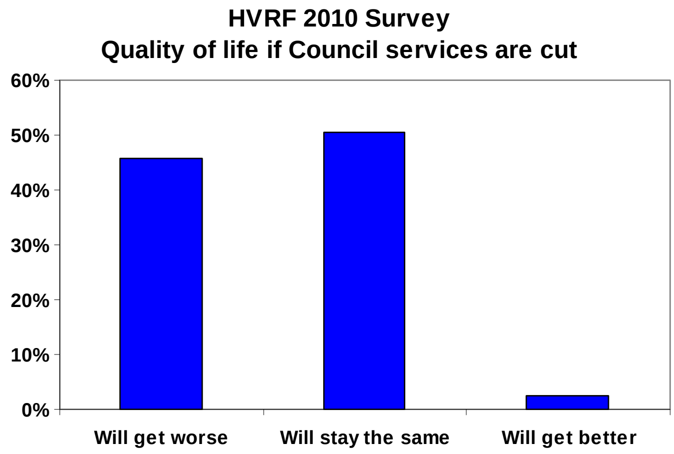
**d.** identified Council as the most important provider of services (88.8%) capable of making the vision a reality, over and above other players including State Government, Federal Government, businesses and the community itself;




**e.** demonstrated strong majority support (66.7%) for enhanced service levels;

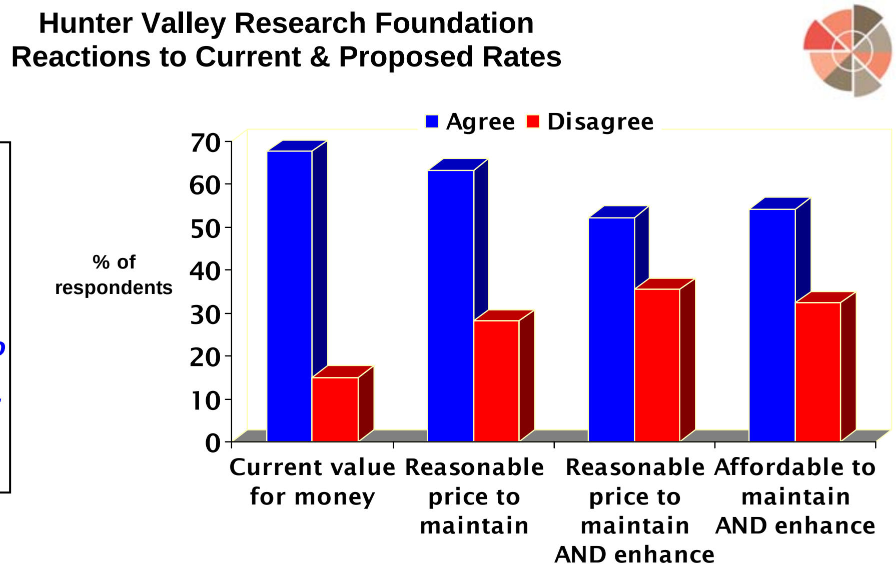



**f.** demonstrated close 50% (45.7%) support for the view that service cuts would lead to a worse quality of life in Waverley, with 50.2% holding the view that life would stay the same and very few (2.5%) saying it would get better;

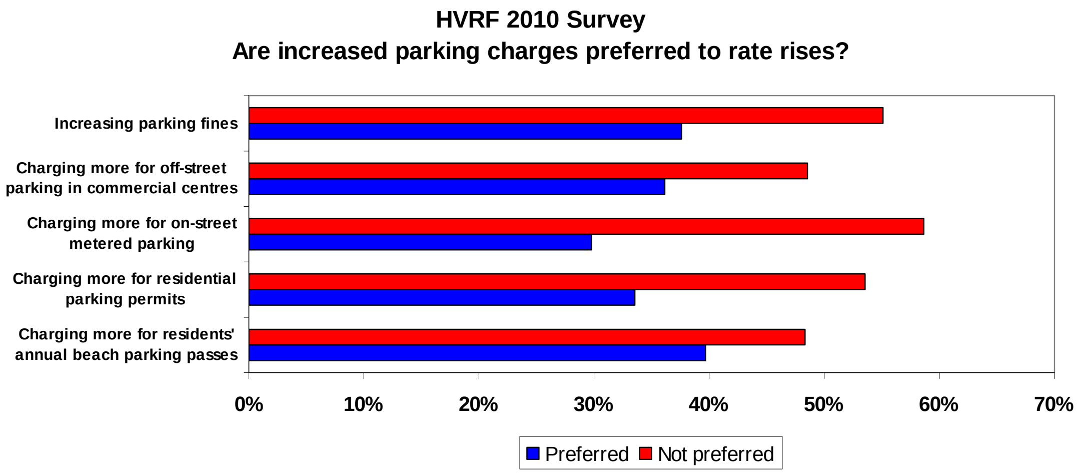


**g.** showed majority support for funding shortfalls for both existing services and enhanced services via a rate increase – in the sense that the rate rises necessary to fund the entirety of the shortfalls for both existing and enhanced services were considered by the majority of respondents to be both a reasonable price to pay and affordable; and

*Depending on the magnitude of the rate rise, the number of people who preferred to raise rates outweighed those who didn't by a factor of anywhere between 1.7 and 2.3.*




**h.** showed that a rate increase was on balance preferable to raising income by other means such as by raising parking fees and fines.




One salient point in this detail, which is relevant to decision making on a rate rise and which is not summarised above, is that there was a difference detected between the support shown for a rate rise by those currently paying higher rates, compared to those currently paying lower rates. Bear in mind here that "higher rates" in Waverley are not as high at all as "higher rates" in some other local government areas for similarly high land values. Ratepayers on high land values in Randwick (above $1,000,000), for instance, are paying between $700 and $1600 more per annum than ratepayers on similarly high land values in Waverley. But notwithstanding the comparatively lower rates for all land values in Waverley, those currently paying higher rates were, not surprisingly, less supportive of higher rate increases than those currently paying average or lower rates.

#### 4.2.2 Self-selected respondent results

As stated above, the consultation program for funding the future was a very widely publicised program. Despite this, only a small number of residents were galvanised by the issue enough to submit responses. Written comments were received from only 179 people and of these only 115 actually chose to make comment one way or another on a rate rise. Given this, it is fortunate that we conducted the statistically valid survey. Otherwise Council would have no basis for discerning overall community support.

Of the 179 people who commented:

- 57 supported a rate rise, 28 of whom supported it for existing services and 29 of whom supported it for enhanced services;
- 58 didn't support a rate rise, and
- 64 made no comment either way on a rate rise.

In other words, support for and against a rate rise was even. Slightly more than half of those that preferred an increase preferred to increase rates for enhanced services.

Those who preferred to delete services instead of raising rates, were somewhat at variance with each other as to which services they preferred to delete. Most suggested cutting services, the deletion of which would not save a great deal of money. As it happens, the services that people in the self-selected sample seemed to value less, tended to be the services that don't cost much or in fact cost nothing to the ratepayer as they're funded by other means and charges. Cutting those services therefore doesn't help resolve the shortfall. This didn't seem to be understood by those in the self-selected sample at the beginning of the *Funding the Future* consultation process but as the months passed it was apparent that understanding of this increased.

It is not known why such a widely publicised program, that went on for over 3 months and got more intense publicity as time passed, did not result in a large response. Anecdotal feedback suggests that rate rises simply aren't a big enough concern to cause people to rally in larger numbers, despite the perception by some that the rate rises are large.

A factor which might corroborate this anecdotal view may (or may not) consist in the fact that the results of the 2010 HVRF survey for those polled before the *Wentworth Courier* article were essentially no different to the results for respondents polled after the article. In other words people were readily able to form a view based on information supplied by either Council, HVRF or the media, and these views did not motivate them strongly enough to protest against a rate rise.

#### 4.2.3 Conclusions drawn from consultation - Hierarchy of preferences

Resolution 1g in the *Review of Financial Structure* (see **Attachment 16**) noted that rates should rise as a proportion of total revenue to avoid service losses but acknowledged that the community may nevertheless prefer a different funding alternative to raising rates.

The community consultation program for *Funding the Future* has shown, however, that the community does not prefer an alternative. They prefer to raise rates and enhance services.

Cutting services to balance the budget is clearly not preferred by a significant majority of the community.

In the *Report on the Review of Waverley Council's Financial Structure*, it was argued that raising rates was the most affordable way to resolve financial shortfalls and the results of the 2010 HVRF survey would tend strongly to suggest that the majority of the community would concur with this. In a hierarchy of options for funding future services, the survey results suggest that the option of raising rates is preferable to both the options of:

- raising income from non-rates sources, and
- cutting services or delaying works on essential infrastructure,

as shown in the table below.

**Table 16 – 2010 Hunter Valley Research Foundation Waverley Community Survey Results**
***Apparent hierarchy of preferences***

| | | | |
|---|---|---|---|
| **Raising income** | Raising rates – is it reasonable value for money? | **Majority said yes** – between 52.3% and 63.3% said yes depending on the quantum of the rise | **Most preferable** |
| | Raising rates – is it affordable? | **Majority said yes** – 54.1% | |
| | Raising other income (from parking) – is it preferable? | **Majority said no** – 52.8% said no; 35.3% said yes | **Least preferable** |
| **Changing service levels** | Increasing services – do we want more? | **Majority said yes** – 66.7% support on average for more services in specified components. | **Most preferable** |
| | Reducing services – will it affect quality of life? | **Split on agreement** – 45.7% said quality of life would get worse; 50.6% said it would stay the same; 2.5% said it would get better. | **Least preferable** |
| | Delaying services/works – will it cost more? | **Majority agreement** – 74.5% recognised that delay of services would mean increased cost. | |

Raising rates therefore makes most sense from a community perspective, even if it is not everyone's preference. In the scheme of things it is clearly less palatable to lose or delay services than it is to pay more rates. And it is less palatable to pay for services via increased user charges (parking charges) than it is to pay more rates.

Support for enhanced services diminished among the survey respondents somewhat for those who pay higher rates. But overall there was strong support for more services. Respondents in the 2010 HVRF survey who thought it was important or very important to have more services outweighed those who thought it wasn't important by a minimum of 3 to 1, and up to 8 to 1 in some cases as **Table 17** below shows.

| Table 17 – 2010 Hunter Valley Research Foundation Waverley Community Survey Results<br>*Do you want more services?* | | |
|---|---|---|
| **Type of service demanded** | **% responding that it was important or very important to have more of this service** | **% responding that it was unimportant or very unimportant to have more of this service** |
| ▪ More opportunities for recreation, health, wellbeing, and artistic and cultural expression | **61.6%** | **14.4%** |
| ▪ More and safer access to public places, to transport and to vital services | **77.1%** | **9.6%** |
| ▪ More cleaning and greening of all the spaces we share | **71.7%** | **11.0%** |
| ▪ More inviting streetscapes and restful local neighbourhoods | **57.5%** | **17.4%** |
| ▪ A more sustainable environment with protection from global warming and preservation of natural ecosystems | **65.0%** | **16.3%** |
| ▪ A more engaged, connected and inspired community actively involved in decision making and in preserving the things we value most | **67.4%** | **13.0%** |

Note: The above results do not add to 100% because a proportion of respondents were unable to give a view either way on the importance of more services in these areas.

Clearly people think more services are necessary if life is to get better and they think it quite likely that reduced services will lead to a poorer quality of life.

In this last supposition, those who thought life would be worse if services were cut – 46% in the HVRF survey – were indeed right. It may be that some of those who thought life would be the same if services were cut might not have fully understood just how much services would need to be cut to balance the budget in the absence of a rate rise. In the absence of a rate rise of some sort we would have to cut up to a full third of services. Discussion in **Attachment 2** shows just how much quality of life is likely to be adversely affected by loss of Council's services.

It is worth noting that respondents in both the 2010 HVRF survey and in the self-selected sample seemed on balance to feel that Council should use efficiencies as at least part of a funding solution. Fact sheets and presentations made it reasonably clear that efficiencies would not solve the entirety of the funding shortfalls. Nevertheless, efficiencies are perceived by both the community and Council to be an important element of a funding strategy.

Taking the above views into account Council determined a hierarchy of preferences for funding the future as shown below. This hierarchy fundamentally influenced the final decision on the quantum of rate variation adopted by Council.

| | | |
|---|---|---|
| **Top of the hierarchy** | Raise rates to secure enhanced services assuming efficiency improvements will help fund some of the cost | **Pay more – get more** |
| | | |
| **Bottom of the hierarchy** | Delete or reduce services and fund remaining shortfalls via increased parking charges | **Pay more – get less** |

# 5. Rating structure and impact on ratepayers

See **Part A** of the application for calculations underpinning the proposed rating structure, the impact of the special variation and average rate increases.

See also **Section 3.3.3** above for distribution of maximum yearly rate increases for Scenario 2 – the rate variation is approved.

## 5.1 Proposed rating structure for the revenue path

The proposed rating structure does not vary between Scenario 1 and Scenario 2.

Waverley's application does not contemplate changing the share of rate burden currently borne by the different categories of ratepayers. There is no proposal to redistribute burden between business and residential categories.

As rate increases are to be applied on a common percentage basis – ie., rates will increase by the same percentage for all ratepayers – the current shares of total rate burden will stay the same as they are now for all.

Waverley will maintain its minimum rates system for residential ratepayers. Business Bondi Junction and Business Ordinary ratepayers will continue to be rated on an ad valorem basis.

### 5.1.1 Preferred Annual Distribution of Rate Rises

The percentage rate increases proposed to be applied for the next 7 years are:

| Table 18 – Proposed Distribution of Rate Rises | | | | | | |
|---|---|---|---|---|---|---|
| **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** | **2016/17** | **2017/18** |
| 14.50% | 13.50% | 12.50% | 11.50% | 10.50% | 8.67% | 2.22% |

This rate revenue path must be followed by 4 more years of CPI increases added to the upper yield achieved by 2017/18 to fund *Service Plus*.

This rate revenue path has been chosen because in the 2010 HVRF survey a significant majority of respondents said:

1. they would prefer to pay rate rises over 10 years in preference to paying over 7 or 5 years, and
2. they would prefer to pay rate rises of the same $ amount each year rather than start with smaller amounts and get bigger. In other words they strongly preferred uniform $ rises per annum to uniform % rises.

| **2010 Hunter Valley Research Foundation Waverley Community Survey Results** ***Do you prefer to pay over shorter or longer periods?*** | | |
|---|---|---|
| **Over 10 years** | **Over 7 years** | **Over 5 years** |
| **63.3%** | **21.3%** | **12.3%** |

| **2010 Hunter Valley Research Foundation Waverley Community Survey Results** ***Uniform $ increases or uniform % increases?*** | |
|---|---|
| **Same amount each year** | **Start smaller and get bigger** |
| **70.0%** | **25.5%** |

Note: The above results do not add to 100% because a proportion of respondents were unable to give a view either way or were indifferent.

Council accordingly accepted that a significant majority of the community preferred to flatten out increases if they could, either by pacing them over a longer period than 7 years or by levelling them out in $ terms over the 7 years.

See **Attachment 7**, *Funding the Future: Report on Funding for Waverley Council's Services 2010 to 2022*, Section 7.3

In deciding on this, Council agreed that pacing out rate rises over 10 or 12 years did not work well, either for ratepayers or Council. This option makes the whole program more expensive and leaves ratepayers with higher annual rates than they would otherwise have had at the end of the period of the above-average rate rises.

The better compromise was to flatten rises as much as possible to uniform $ increases over 7 years. This option has 2 big benefits:

- it is cheaper for ratepayers in the long run, and
- they will have to wait less time to see benefits.

Council has modelled various ways of flattening rises consistent with community preference and after taking a number of factors into consideration the proposed increases are:

**Table 19 – Maximum Average Annual $ Residential Rate Increases for *Service Plus***

| Residential Land Value | % of Residential Properties | 2010/11 Total Annual Rates Including Environmental Levy | Expected Average Rate Rise – Next 7 Years | Total Rates in 2017/18 |
|---|---|---|---|---|
| Up to $341,850 | 50% | $405 | $53 | $774 |
| $341,851 to $500,000 | 11% | $592 | $77 | $1,133 |
| $500,001 to $633,000 | 6% | $750 | $98 | $1,434 |
| $633,001 to $800,000 | 11% | $948 | $124 | $1,812 |
| $800,001 to $884,000 | 3% | $1,047 | $136 | $2,002 |
| $884,001 to $1,000,000 | 4% | $1,184 | $154 | $2,265 |
| $1,000,001 to $1,500,000 | 9% | $1,777 | $232 | $3,398 |
| $1,500,001 to $2,000,000 | 4% | $2,369 | $309 | $4,530 |

**Table 20 – Maximum Annual $ Residential Rate Increases for *Service Plus*****

| Residential Land Value | 2011/12 | 2012/13 | 2013/14* | 2014/15 | 2015/16 | 2016/17* | 2017/18 |
|---|---|---|---|---|---|---|---|
| Up to $341,850 | $38 | $60 | $63 | $65 | $66 | $60 | $17 |
| $341,851 to $500,000 | $56 | $87 | $92 | $95 | $97 | $88 | $25 |
| $500,001 to $633,000 | $71 | $111 | $116 | $120 | $123 | $112 | $31 |
| $633,001 to $800,000 | $89 | $140 | $147 | $152 | $155 | $141 | $39 |
| $800,001 to $884,000 | $99 | $155 | $163 | $168 | $171 | $156 | $44 |
| $884,001 to $1,000,000 | $112 | $175 | $184 | $190 | $194 | $177 | $49 |
| $1,000,001 to $1,500,000 | $168 | $262 | $276 | $285 | $291 | $265 | $74 |
| $1,500,001 to $2,000,000 | $223 | $350 | $368 | $381 | $388 | $354 | $98 |

* Land-revaluations may occur in these years which may result in higher or lower rate increases. Hardship schemes have been enhanced to assist ratepayers suffering hardship caused by this.
** Displays increases compared to total rates paid in previous year (including Environmental Levy).

With the above rises, total annual rates per residential land value stratum will be as follows:

| Table 21 – Maximum Annual $ Residential Rates for *Service Plus* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Residential Land Value** | **2010/11** | **2011/12** | **2012/13** | **2013/14*** | **2014/15** | **2015/16** | **2016/17*** | **2017/18** |
| Up to $341,850 | $405 | $443 | $503 | $566 | $631 | $697 | $757 | $774 |
| $341,851 to $500,000 | $592 | $648 | $736 | $828 | $923 | $1,020 | $1,108 | $1,133 |
| $500,001 to $633,000 | $750 | $820 | $931 | $1,048 | $1,168 | $1,291 | $1,403 | $1,434 |
| $633,001 to $800,000 | $948 | $1,037 | $1,177 | $1,324 | $1,476 | $1,631 | $1,773 | $1,812 |
| $800,001 to $884,000 | $1,047 | $1,146 | $1,300 | $1,463 | $1,631 | $1,803 | $1,959 | $2,002 |
| $884,001 to $1,000,000 | $1,184 | $1,296 | $1,471 | $1,655 | $1,845 | $2,039 | $2,216 | $2,265 |
| $1,000,001 to $1,500,000 | $1,777 | $1,944 | $2,207 | $2,483 | $2,768 | $3,059 | $3,324 | $3,398 |
| $1,500,001 to $2,000,000 | $2,369 | $2,592 | $2,942 | $3,310 | $3,691 | $4,078 | $4,432 | $4,530 |

**Note:** These rises are slightly lower than those contemplated by Council when it resolved to apply for a rate variation in December 2010.

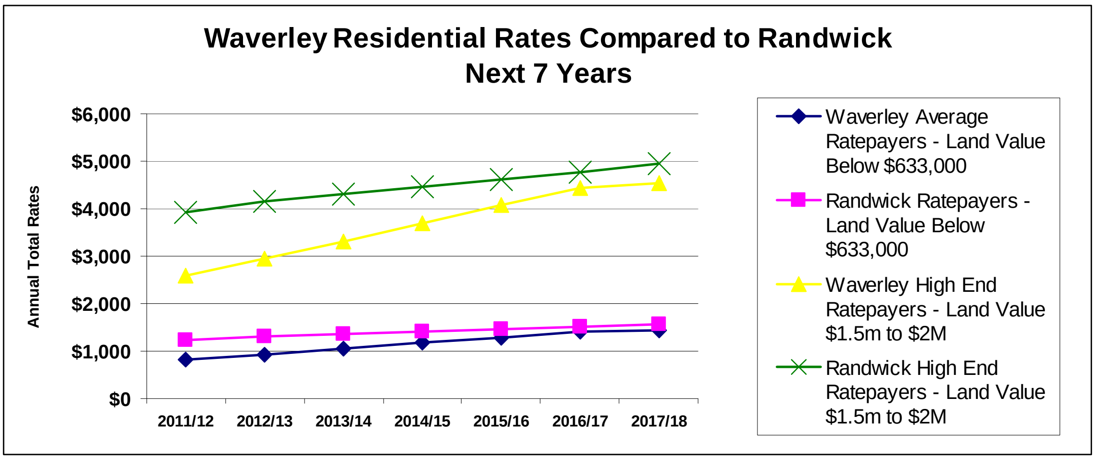
See **Attachment 10** for the full text of Council's December 2010 resolution to apply for a rate rise.

The rate rise has been revised downwards to reflect that fact that the model now correctly takes account of lower announced Award wage rises for the next 2 years compared to wages rises assumed in the December 2010 report to Council. These lower wage rises have flowed right through the financial model resulting in a corresponding lower required rate rise to cover the shortfalls for *Service Plus*. The change is only slight; but because labour is such a significant part of the budget, it has a significant compounding effect over the years. The rate rise expected in December 2010 to fully cover *Service Plus* was 11.9% cumulative for 7 years. Incorporation of the lower Award increases has reduced this to 11.12% cumulative for 7 years.

The update of the model has accordingly resulted in lower rate rises than those first notified to IPART in February 2011.

The revised rate rises are also markedly lower than the 120% increases put forward for consideration and endorsed by the community during *Funding the Future*. If the revised rate rises now necessary for delivery of *Service Plus* in full are approved, total rates in 7 years' time in Waverley will be 91% higher than they are in 2010/11 instead of 120% higher. In this case they will remain low by metropolitan council standards and quite low compared to what might be expected in Eastern Suburbs LGAs with similar land values to Waverley's.

The following graph shows total residential rates payable with Waverley's proposed rate revenue path over the next 7 years for the average land value property in Waverley (currently $633,000) and a high end valued property of $2,000,000, compared to properties of the same value next door in Randwick. In this comparison it's been assumed that rate increases for Randwick will be at CPI after Randwick's currently approved rate variation ceases to apply.




In 7 years' time Waverley ratepayers will still be paying less than those in Randwick on the same land values and may be paying significantly less if Randwick renews its environmental levy which expires in 2013/14.

### 5.2 Impact on rates

If **Scenario 1** prevails the LGCI will be uniformly applied to all categories and subcategories of ratepayers, with residential ratepayers being subject to a minimum rate of $398.

If **Scenario 2** prevails the LGCI will be uniformly applied to all categories and subcategories of ratepayers, with residential ratepayers being subject to a minimum rate of $443.

#### 5.2.1 Minimum rates

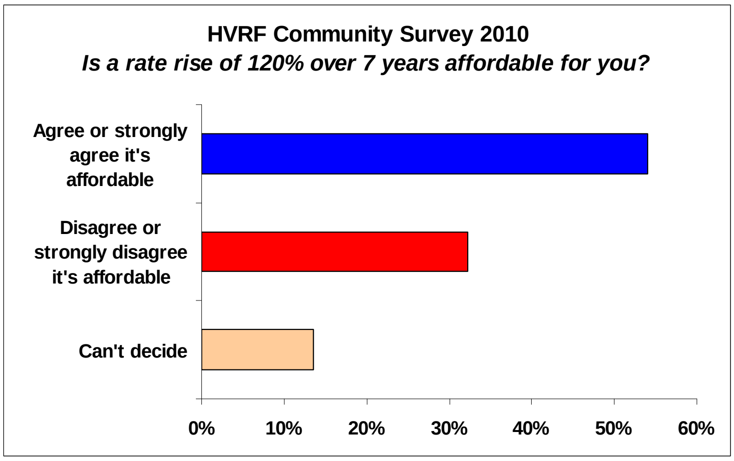
Does Council have minimum rates?

Yes [X] No [ ]

The share of ratepayers on the minimum rate is currently 50%. As the rate variation is not proposing the change this share, the proportion of ratepayers on the minimum rate will be the same as it is now regardless of whether the application is approved or not.

#### 5.2.2 Community's capacity to pay proposed rate increases - residents

Section 4.2.1 above shows the results of the statistically valid survey of residents and ratepayers views on affordability of a 120% rate rise. Effectively for every respondent that held the view that a 120% rate rise was not affordable, 1.7 respondents said it was affordable. Similar proportions ranked this increase as a reasonable price to pay for the services to be provided. In other words it was deemed to be good value for money.



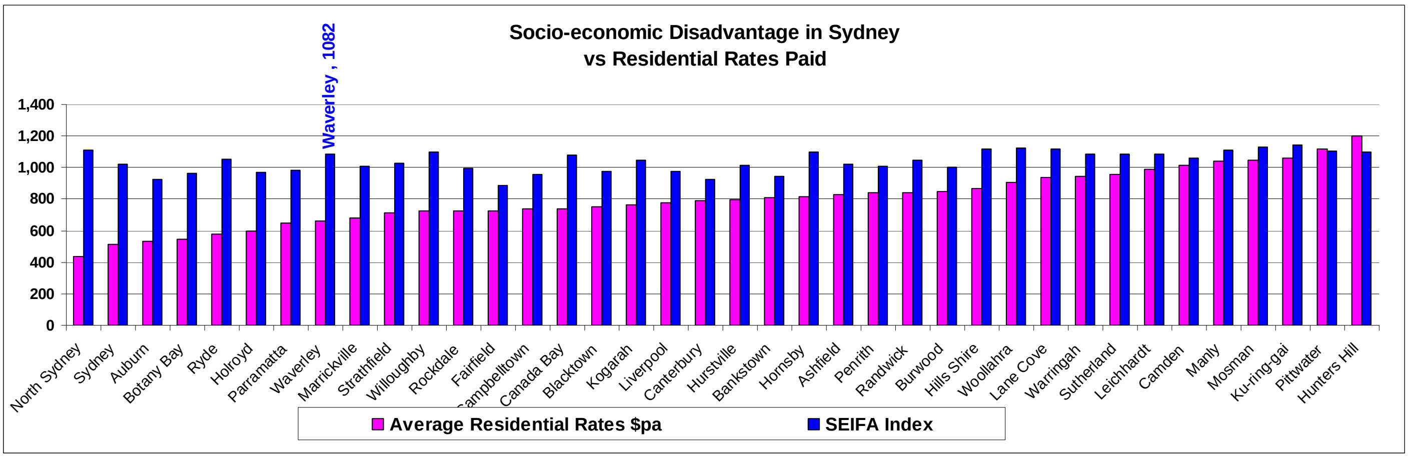

Detailed analysis of the HVRF survey results shows that those who were paying rates at the high end (above $930) were, not surprisingly, more inclined to disagree that a 120% increase was affordable.

In the end Council resolved to apply for a maximum 105% increase, as opposed to a 120% increase, and to approve an expansion of Council's current hardship schemes as shown in Clause 11 of the December 2010 resolution (see **Attachment 10**). Imputation of lower Award increases has now resulted in an even lower necessary rate rise of 91% over the 7 years. This has helped shave as much as $2,300 off the top of the total quantum of extra rates to be paid by high end ratepayers over 7 years, compared to what they were prepared to pay during *Funding the Future*. It has also left them with a final annual rate bill in 2017/18 that is up to $660 lower than the 120% increase proposal.

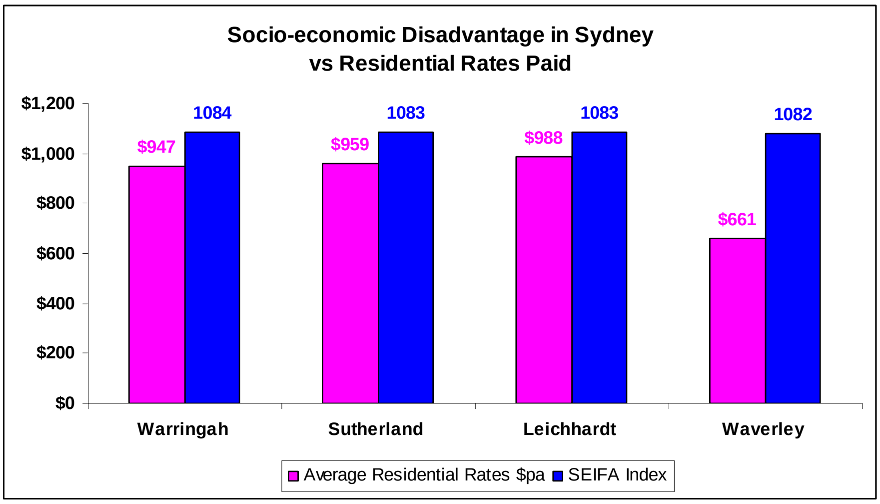
Council has intensely analysed affordability of rate rises for Waverley residents taking into account the LGA's socio-economic profile.

- See **Attachment 16**, *Funding the Future: Waverley Council Review of Financial Structure 2010 to 2022*, Section 7.4.
- See also **Attachment 4**, LTFP3.1, Section 9.2.7.2.

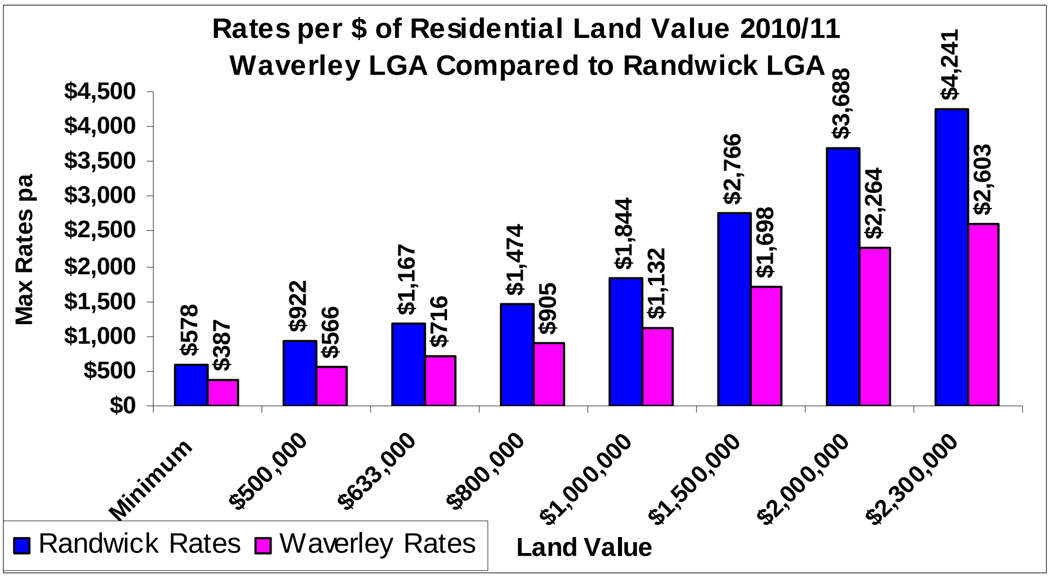
Additionally we have analysed rates paid in Waverley compared to other LGAs which have lower socio-economic indices as per the SEIFA Index. Using the 2008/09 DLG Comparative Data, this analysis shows that there are 30 metropolitan LGAs with higher average residential rates than Waverley. Of those 30, 17 have lower SEIFA indices than Waverley, ie., they are more socio-economically disadvantaged than Waverley but they are paying higher rates, as shown in the graph below. Even Fairfield, with the lowest SEIFA Index in Sydney has higher average rates than Waverley:




A finer analysis shows that ratepayers in LGAs with SEIFA indices close to Waverley's are paying on average $300 per annum more in average rates than Waverley ratepayers, as shown opposite:



Ratepayers in the neighbouring Randwick LGA, which has a Minimum Rates System and high land values similar to Waverley's, are also paying considerably more than Waverley ratepayers for properties of identical land value as shown below:




The graph in **Section 5.1.1** above shows that with the current rate variation proposal, Waverley ratepayers will continue to enjoy lower rates than Randwick ratepayers on the same land values throughout the planning period.

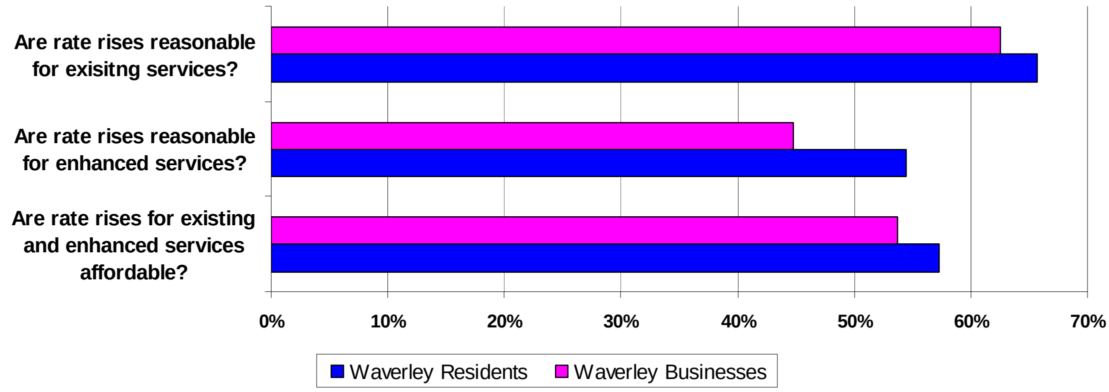
Altogether this confirms that residential rates in Waverley are very low compared to the land wealth and socio-economic capacity of the LGA on average.

In fact, more than a decade of suppression of rate increases at levels well below the pace of cost increases (while parking income filled the gap) has resulted in a situation where the rates have become completely disconnected from wealth in Waverley, far more so than in other LGAs. Rates in Waverley are no longer a function of wealth at all, either as measured by land wealth or household wealth. There is in this case genuine capacity to increase rates to levels where they are comparable with other LGAs of similar land and socio-economic wealth. This capacity would seem to be acknowledged by the majority of ratepayers in the HVRF survey as shown above. For those that did feel stressed by the proposed increases, Council has taken steps to ameliorate the effects which should be quite effective in reducing hardship overall as shown below.

### 5.2.3 Business capacity to pay proposed rate increases

Council does not have capacity to undertake detailed assessments of potential economic impacts on business arising from the rate variation. However, businesses were included in the 2010 HVRF statistically valid survey. Results indicate that there is not a lot of difference between residents and businesses in their attitudes to a rate rise, although businesses do noticeably show a lower level of support than residents for rate rises for enhanced services. However, there is no statistical difference between residents and business when it comes to affordability of rate rises as shown below.

**HVRF Community Survey 2010**
**Support for Rate Rises - Businesses Compared to Residents**




There was also no statistical difference between residents and businesses when it came to support for enhanced services in the following categories:

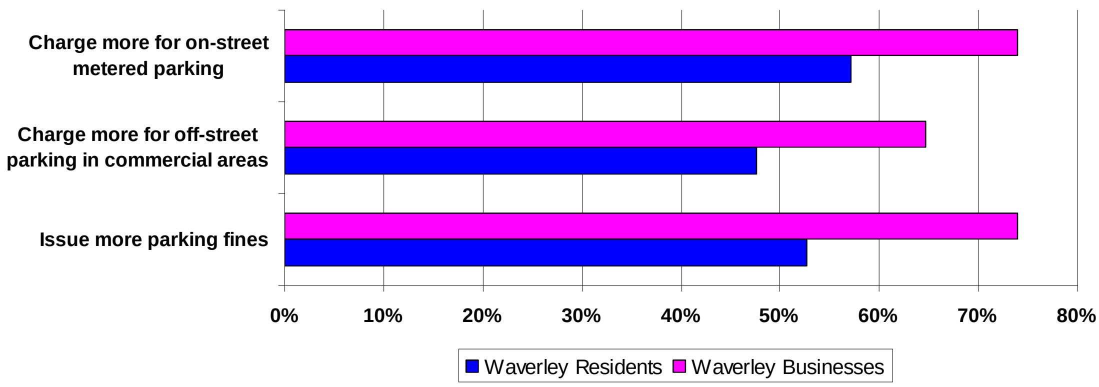
- more recreation, health, well-being and artistic and cultural expression;
- more and safer access to public places, transport and vital services;
- more cleaning and greening of the spaces we share;
- more inviting streetscapes and restful local neighbourhoods;

Businesses did, however, favour the following enhancements slightly less than did residents:

- a more sustainable environment with increased protection from global warming and preservation of natural ecosystems; and
- more partnering with an engaged community actively involved in decision making.

The slightly lower support for rate rises shown by businesses needs to be read in the context of their views about alternative funding. Businesses showed a much greater rejection than residents of the option of funding services via parking fees and fines.

**HVRF Community Survey 2010**
**Rejection of Parking Fee & Fine Rises - Businesses Compared to Residents**



### 5.3 Addressing hardship

Does Council have a Hardship Policy in place?

Yes [ ] No [X]

Waverley Council does not have an up to date Hardship Policy in place. In the past hardship cases have always been dealt with in accordance with the provisions of the Act as they present themselves. (Note that requests for consideration of hardship have been rare in the last 10 years.) Hardship schemes have been developed for one-off changes in rates as needed. The last of these was in 2003 and was tailored for businesses in Bondi Junction affected by a change of the boundary between Waverley and Woollahra.

In resolving to apply for this current rate rise, Council also resolved to update policies and procedures for consideration of hardship.

See **Attachment 15**, *Draft Rates and Charges Collection and Hardship Assistance Policy*, March 2010 for the draft updated hardship policy and procedures.

Clause 11 of the December 2010 Council – see **Attachment 10** – resolution provides details of the particular approved enhanced hardship scheme that will apply in the event of approval by IPART of the requested special rate variation. The detail of this resolution has been incorporated into the revised draft *Rates and Charges Collection and Hardship Assistance Policy*. The revised Policy will be adopted before June 2011.

The revised policy that will apply for dealing with hardship, contingent on the approval of the rate rise, has been resolved by Council as follows. It provides enhanced relief from hardship caused by the rate variation for both pensioners and non-pensioners.

***Clause 11 – Council resolution of 14 December 2010***

*Contingent on Council's adoption of the rate rise recommended in 9b above, the proposed enhanced financial hardship scheme would comprise:*

*a. a $50 per annum increase to the pensioner rate rebate bringing it to $300 per annum, and*

*b. a rate write-off of up to $150 in the financial years where rate rises, due to re-valuations of land by the Valuer-General, cause financial hardship – i.e., for non-pensioner ratepayers who experience a rate increase of more than $200 in a re-valuation year, Council may, on application, abandon the portion of the increase that is over $200 up to a maximum of $150, if financial hardship is demonstrated.*

## 6. Financing strategy

### 6.1 Overview of strategy for funding new capital works

No expenditures are envisaged for new capital works which require funding from a rate rise. Funding for any newly created capital in *Service Plus* has already been sourced from alternative means, principally from:

- sales of assets under Council's adopted *Investment Strategy 2007*,
- grants and contributions, and
- user fees for services delivered from the newly created capital.

For detail on how the *Investment Strategy 2007* has acted to reduce rate rises required for new capital to zero, see **Attachment 4**. LTFP3.1, Chapter 4.

The Investment Strategy is in effect a system of cash flow management via internal loans from reserves built through sales of poorly performing or assets. This efficiently finances more than $50 million of works over the next 5 years and achieves an improved return on assets.

### 6.2 Sustainability of debt

Does Council propose to undertake any borrowings in 2011/12?

New external loans Yes [ ] No [X]

Internal loans Yes [X] No [ ]

The internal loan is from the Domestic Waste Reserve to assist with cash flow funding for the payout of accrued gratuity leave liability in accordance with the recently renegotiated Conditions Enterprise Agreement 2010. This internal borrowing has been formally approved by the Minister for Local Government.

Does Council propose to undertake any borrowings between in 2011/12 and 2017/18?

New external loans Yes [X] No [ ]

External loans are envisaged for construction of a pavilion for funerals in Waverley Cemetery, subject to significant consultation with the community that has yet to be undertaken. It is by no means certain that this project will proceed and the project is not part of the rate rise. Unless the project can guarantee funding for loan repayments via development of a business case which confirms the viability of Council's entry into the competitive funeral business industry, this project will not proceed at all.

See **Attachment 4** LTFP3.1, Sections 2.5, 7.1, 7.5, and 8.1 for further information on this project.

#### 6.2.1 Selected financing strategies, including taking on more debt

Council's LTFP3.1 has analysed 8 strategies for financing future services sustainably over the next 11 years. The strategies examined are:

**Strategy 1** – Improving productivity
**Strategy 2** – Making savings via discontinuation of services
**Strategy 3** – Optimising assets
**Strategy 4** – Utilising reserves
**Strategy 5** – Utilising loans
**Strategy 6** – Utilising other funding sources
**Strategy 7** – Increasing rates over 7 years
**Strategy 8** – Pacing rate rises over periods of less than 7 years

The selected financing strategy has been to use a combination of:

**Strategy 1** – Improving productivity
**Strategy 3** – Optimising assets
**Strategy 4** – Utilising reserves
**Strategy 5** – Utilising loans
**Strategy 6** – Utilising other funding sources
**Strategy 7** – Increasing rates over 7 years

This combination of financing strategies has been selected after analysis of the risks and benefits of each strategy. The extent to which each strategy is to be depended upon – proportionally – as part of the overall sustainable financing strategy is a function of that risk analysis.

- See **Attachment 4**, LTFP3.1, Chapter 9, Sections 9.2.1, through to 9.2.8.

- Results of analysis of the feasibility and effectiveness of using debt for financing capital are shown in **Attachment 4**, LTFP3.1, Chapter 2, Section 2.5 and Chapter 9, Section 9.2.5.

Results of analysis about the feasibility and effectiveness of Strategy 5 – Utilising Loans – can be summarised as follows:

Assuming Council has capacity to service more debt, the use of debt financing is most likely to increase during the life of this plan for:

- investments which can generate sufficient financial returns to repay the debt, or
- where cash flow issues are holding up necessary works and can be reliably resolved by loans which can be repaid.

However, the use of debt is only likely to increase for other types of investments (ie., those that don't generate financial returns for Council such as backlog infrastructure renewals) if attractive reliable (ie., fixed) interest rates can be obtained for the life of the loan. This is because there is obviously a point of diminishing returns for the current generation (the generation of the next ten years) from debt financing. In Council's view this point of diminishing returns is arrived at when interest rates reach around 8%.

Unfortunately, interest rates on offer at the moment for fixed interest loans are in the order of 8%. This makes debt financing for works which do not generate a new income stream, such as road renewal works, quite unattractive at this time.

The following table shows the difference in cost to the community (this generation and the next) that arises when the cost of a notional $5 million 10 year works program is spread over 20 years via the use of loans:

| Cost to Current and Future Generations of Spreading Burden Between Generations for Capital Works Via the Use of Debt Financing | | | |
|---|---|---|---|
| **Example Amount Borrowed - $5 million for 20 Years** | | | |
| **Interest Rate** | **Amount of repayments borne by this generation over the next 10 years*** | **Amount of repayments borne by the next generation over the subsequent 10 years*** | **Total cost of a $5 million program over 20 years using debt financing** |
| 6% | $4,298,520 | $4,298,520 | $8,597,040 |
| 8% | $5,025,840 | $5,025,840 | $10,051,680 |

* Payments shown are for full repayment of principal and interest.

The above example shows that current generation:

- derives no relief by a strategy of borrowing when interest rates reach 8%, and
- is only marginally better off with lower interest rates.

Overall both generations suffer substantially at 8% and together they virtually pay the bill twice. Based on the above model it is therefore considered that, unless there is an emergency, there is at present no advantage to be accrued for this generation by attempting to share burden with the next generation via the use of loans.

In the event of prevailing high interest rates, a strategy of delaying or carefully staging works is considered to be the best alternative means of fairly distributing burden between generations. And indeed, this is what has already been planned. Council's SAMPs show that backlog infrastructure works can in fact be staged slowly over the next ten years without significantly increasing long run costs or exposing the community to significant risk of asset collapse. In fact, the targets of *Waverley Together 2* for asset condition can be met via this strategy without the need for borrowing for acceleration of works. By contrast, loans would significantly increase long run cost both at the present interest rates and at lower rates. The community is better off staging works to commence in a year when they can pay for them from recurrent income or from reserves that they have been building slowly to allow works to commence at the appropriately planned time.

Obviously, debt is only to be considered by Council as a means of financing capital investments, not operational costs. Bearing in mind that approximately 90% Council's predicted future shortfalls are for the ongoing operational costs of existing services and routine infrastructure maintenance, rather than capital enhancements, increased debt is not likely to form a major part of the solution to shortfalls. Over the 12 years from 2010/11 to 2021/22 projected capital costs amount to $218 million. Some of these costs are intended for debt financing already. However, almost 70% of the capital program is really about maintenance of existing assets rather than creation of new capital or replacement capital. As such, about 70% of the capital program is not ideally suitable for debt financing, especially in the current interest rate climate, unless an emergency arises.

The following table shows a view of the capital works program in terms of the suitability and likelihood of some major categories of works being financed by loans over the next ten years:

| Table 22 – *Waverley Together 2* Capital Program Major Items – Suitability for Debt Financing | | | | |
|---|---|---|---|---|
| **Capital Project** | **% of Total Capital Program Cost to 2022** | **Suitability for Debt Financing** | **Is debt financing likely?** | **Expected Financing Arrangement** |
| Waverley Pavilion* | 5% | Not suitable | No | Insufficient income will be generated from this facility to support loan repayments. The facility is being financed by a combination of grants and sale of assets that are surplus to requirements. Temporary internal loans may be utilised for cash flow purposes if required. |
| Early Learning & Child Care Centre* | 2% | Suitable | No | The facility is being financed by a combination of grants and disposal of assets earmarked for sale under the Investment Strategy. An internal loan from the Investment Strategy Reserve will be repaid by child care fees over approx. 12 years. |
| New Central Works Depot* | 10% | Suitable | No | This inevitable new facility will be financed by the necessary sale of the current works depot. Loan financing is unattractive because the cost of borrowing would exceed the interest income foregone by using earnings from the sale to finance the next depot. |
| Waverley Cemetery Pavilion* | 2% | Suitable | Possibly | Debt financing is expected if this project is approved, as the facility would be expected to generate returns sufficient to repay debts. This facility is unlikely to go ahead if debt funding cannot be financed by expected ongoing receipts from funerals. |
| Eastgate Car Park Office Conversion Project* | 5% | Suitable | Possibly | The facility is being financed by disposal of assets earmarked for sale under the Investment Strategy. Bridging finance may be utilised if this project is approved for commencement, as this facility would generate returns sufficient to repay debts. |
| Backlog asset renewal works and maintenance to be capitalised | 66% | Not suitable | No | The preferred financing strategy for this is to stage the works over the next ten years. There is no need to accelerate these works by borrowing. |
| Land acquisitions | 2% | Suitable | Possibly | Loans for compulsory land purchases are favoured subject to a rate increase to repay the loans. Otherwise acquisitions would need to be financed by sale of surplus assets. |
| Local village and commercial centre street renewal* | 2% | Suitable | Possibly | Debt could be used for these projects, repaid by developer contributions. |
| Energy and water efficiency programs* | 1% | Suitable | Possibly | Internal loans may be considered for this to be repaid by savings in energy bills. |
| Parking access equipment* | 5% | Suitable | No | Reserves are already set aside for this purpose. |

* These items are not intended to be funded via rates or via a rate variation application.

The above analysis shows that a maximum of approximately 12% of the total capital program may *theoretically* be suitable for debt financing. However, except for the Cemetery Pavilion and Land Purchases there is no real benefit to be offered by debt financing in terms of intergenerational equity. Cash flow benefits may arise from short term loans in some cases.

## 6.3 Sustainability of pacing rate rises over periods of less than 7 years

As stated above, Council's approach to financing future services has been to analyse a comprehensive set of 8 strategies. One of these strategies, Strategy 2, has been discarded as a result of this analysis.

**Section 4** above shows why Strategy 2 was discarded. The community has rejected it.

See also **Attachment 4**, LTFP 3.1, Section 9.2.2 for comment on why this strategy has been discarded.

Strategy 8 – pacing out rate rises over periods of less than 7 years – has also been rejected but only if rate rises are to take a certain form. Specifically, it has been deemed a suboptimal strategy if there is an insistence that rate increases should be applied as uniform % increases. The strategy of pacing out rate rises over periods of less than 7 years has not been discarded if increases are approved to be applied as uniform $ increases or declining percentages.

Due to certain favourable changes since December 2010 in announced Award increases (ie., lower than expected Award increases have now been factored in to the LTFP3.1 financial model) it is now possible to achieve a compromise solution consistent with Council's December 2010 resolution to apply for a rate variation on a declining percentage or roughly uniform $ basis up to year 6 and then drop to a lower increase in the last year which can, as it happens, be equivalent to CPI. This was not thought possible prior to the imputation of the new Award increases.

This variant of Strategy 8 results in a pattern of rate increases for the average residential ratepayer over 7 years of:

**Table 23 – Annual $ rate increases for average residential ratepayers for Service Plus using the proposed declining % rate rises**

| Average Residential Land Value | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| $633,000 | 14.5% | 13.5% | 12.5% | 11.5% | 10.5% | 8.67% | 2.22% |
| $633,000 | $71 | $111 | $116 | $120 | $123 | $112 | $31 |

which compares favourably to the increases that would need to be applied over 7 years if uniform % increases were applied.

**Table 24 – Maximum Annual $ Residential Rate Increases for *Service Plus***

| Average Residential Land Value | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|---|
| $633,000 | 11.12% | 11.12% | 11.12% | 11.12% | 11.12% | 11.12% | 11.12% |
| $633,000 | $47 | $89 | $98 | $109 | $121 | $135 | $150 |

The two patterns raise different yields over the first 7 years but the same yields over the 11 year period remaining for *Waverley Together 2*. The second pattern, of uniform % increases over 7 years has some distinct disadvantages for the ratepayers of this generation and probably places an undue share of intergenerational burden on them, compared to the next generation. The first pattern – roughly uniform $ increases or declining percentages – is fairer to both generations.

See **Section 5.1.1**, Tables 20 and 21 above for the pattern of results for other land values when roughly uniform $ rises are applied.

### 6.3.1 Feasibility of variations over 6 years

In the event that IPART for some reason prefers rate increases to be applied as uniform percentages, Waverley would still need to maintain its objection to a strategy of pacing out rate rises over period a period of less than 7 years in our particular case. The reasons for this objection can be summarised as follows.

The DLG *Guidelines* for rate variation applications state an expectation that applications should be for a maximum of 4 years. IPART and the DLG have also both expressed a view that councils should consider submitting applications for rate rises applicable over periods that align with the length of term of an elected council. Given where we are in the election cycle at the moment, this would imply that councils in 2010 should consider confining their applications to 2 year or 6 year periods rather than the 7 years allowable under the Local Government Act.

Waverley Council infers that the intention of this is that Resourcing Strategies, or more particularly Long Term Financial Plans, should be designed to align with delivery of each council's adopted Delivery Program and that, to be consistent with the underlying intent of the IP&R framework, rate variation applications should similarly travel in 4 year blocks.

Waverley Council, however, doesn't agree that the restriction of rate variation applications to 4 year blocks is in fact consistent with the intention of the IP&R framework (at least not for Section 508A variations). It is arguable that confinement of applications to 4 year periods may lead to situations where long term planning is in effect replaced once more with short term planning.

Certainly, Delivery Programs are ideally designed for 4 year periods to keep each individual elected council clearly focussed on what it will have to do in a particular 4 year period to ensure that, over the entire 10 to 12 year period of a Community Strategic Plan, the originally intended QBL outcomes can be achieved.

But the intention and purpose of the IP&R reforms with respect to Long Term Financial Plans is different to the intention with respect to the Delivery Program – at least as far as the length of the planning timeframe is concerned. In the Resourcing Strategy part of the IP&R framework, councils must seek out the least cost expenditure and revenue paths over the longer 10 to 12 year term, not the shorter 4 year term. And they should attempt to establish a sustainable revenue and expenditure framework capable of delivering the CSP over the longer rather than the shorter term. The rate revenue path within the full revenue framework should be spread to secure funding to match neither more nor less than the smoothed minimum revenue requirement/shortfall.

Confining revenue path planning to shorter terms is apt to drive up costs unnecessarily by tempting councils to crunch revenue and expenditure increases into shorter periods than might be required. Or conversely it will be apt to tempt an individual elected council to push down their share of expenditures required for the CSP (and their corresponding rate variations) thus transferring the burden to the subsequent councils who will then have a much harder task of putting together a sustainable Resourcing Strategy to catch up.

The benefit of the IP&R framework is that it gets over much of this short-sightedness in planning, encourages the appropriate risk-based expenditure path, and smooths out the burden for ratepayers. But it will not provide this benefit if it doesn't also give councils confidence in the long term security of funding for the CSP. Without this confidence, distortions will be reintroduced to revenue pathway planning because the incentives will once again be focussed only on the short term planning horizon. Security of funding over a minimum 10 year period is a fundamental of IP&R and is essential to least cost expenditure and revenue path planning.

In Waverley's case, a 6 year application of uniform percentages at this time would not provide an optimum revenue path and would increase the rate rise required over the next 6 years. Because the total cost of delivering Council's part of *Waverley Together 2* has been worked out over the full 12 years from 2010, it has been possible to design an optimum rate revenue path in which rate increases:

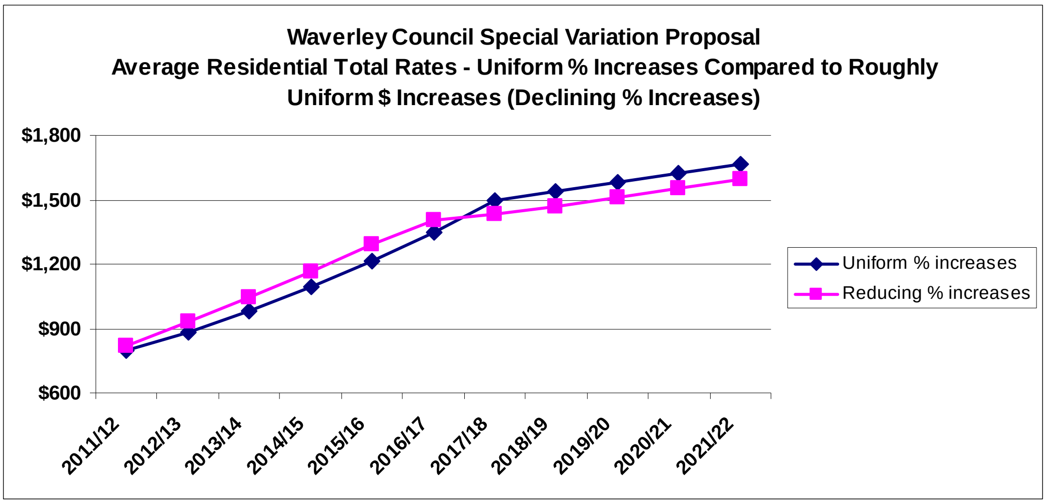
- commence neither too soon nor too late in the 12 year cycle (ie., by 2011/12);
- are flattened over the longest term possible to spread the burden more fairly; and
- provide for (partial) recovery from problems and risks associated with our poor rates coverage ratio at a sustainable pace (see Section 9.2.7 of LTFP3.1).

As stated above, rate increases paced over 7 years are also supported more by the community than rate increases over shorter periods. See results of the HVRF survey in Section 3.3.3 above.

Taking all this into account Council does not agree that an optimum revenue path can be established by uniform % rate variations over a period shorter than 7 years in our case. If IPART feels compelled to approve a rate rise of, say, 6 years, Waverley would suggest either:

- that the declining percentage increases suggested in this application be approved for 6 years with an assumption that an increase of at least 2.22% will be applied in 2017/18; or
- uniform % increases in excess of 11.12% be approved for 6 years.

Waverley has not modelled the % increase that would be required in excess of 11.12% in a 6 year option as we are of the view that it is not in the community's best interest and they are better off with the declining % increases proposed in this application. This is the more sustainable rate revenue path for both the community and Council as shown by the graph below.



### 6.3.2 Feasibility of variations over 2 years

IPART has asked for Council's view on a rate rise over 2 years.

A rate rise for 2 years is in Council's view wholly unsustainable and will result in significant disruption of the optimal expenditure pattern that can be achieved with, and only with, the greater surety provided by the full 7 year variation of declining percentages as proposed. This disruption will result in:

- an increase in the full cost of *Service Plus* by delaying investment in asset renewal and services. This is a problem that 74% of the Waverley community recognised and wanted to avoid (see results of the HVRF survey above).

- an extension of the current customer dissatisfaction with service standards, particularly in areas where the community has clearly asked for more service.

What needs to be understood about this application is that it is about addressing both asset backlogs and service backlogs. Service backlogs require staff increases as staff levels are currently undersupplied in certain areas (see the *Workforce Plan 2010-2014*, pages 34 to 59).

Council will be unable to address these service backlogs without putting on staff and they will be unable to put on and keep staff without a more reliable view of prospective income.

Council will also obviously be unable to plan to complete asset backlog programs with a rate rise that is limited to 2 years.  We have achieved remarkable reductions in the assessed cost of these backlogs but the remainder of the backlogs will not go away for at least another 7 years.

The fact is these backlogs – both for assets and services – exist, and they are causing serious service dissatisfaction. Both backlogs require ongoing investment, not just catch ups or one-offs.

A secure rate revenue path is also required to help address Waverley Council's impending financial sustainability issues. This is an issue that can be fixed with staged and affordable adjustments to the proportional mix of total revenues over an extended period. There is no need to disrupt what is, in our analysis, a reasonably efficient Council with a track record of very innovative service provision for relatively low direct cost to ratepayers.

Should IPART determine to approve a rate variation for 2 years at 14.5% and 13.5% we will of course submit another application at the appropriate time for the remainder of funds necessary to deliver our contribution to realisation of the Vision of *Waverley Together 2*. We anticipate that such an application would be supported by the usual financial modelling. However, in Council's view it is clear that there is a mandate for gradual change to the structure of income by raising rates over 7 years, not less. It is also Council's view that, having given such a mandate, the community would not welcome repeated surveys in the short term on rate rises and that they would instead prefer to be confident that their Council is properly resourced to get on with the job efficiently.

## 7. Productivity improvements

Waverley has measured productivity gains and losses annually for 10 year rolling periods since 2008. Estimates of productivity movement are reported in our LTFPs and analyses are undertaken to determine causes of any losses and develop strategies to reverse any negative trends.

Overall, however, the trend of productivity at Waverley has been positive on 10 year rolling averages and by our calculations is on a par with, or better than, recorded Australian productivity growth. With average productivity gains of between 1% and 1.5% per annum, Council's workforce has generally kept pace with the current Australian economy wide productivity gains of around 1.2%.

Council's efficiency gains are due, at least in part, to significant targeted efficiency programs and service reviews that have been conducted under organisational development plans and our adopted Business Excellence Framework (BEF) since 2003. (Waverley Council works within the Australian Business Excellence Framework to achieve continuous improvement in the efficiency and effectiveness of its operations – see for example our application of the BEF in Asset Management (SAMP3 Appendix A15), which is acknowledged as an industry best practice feature of our Asset Management Policy.

A list of approximately 100 of the most significant service reviews and negotiated efficiency programs/achievements conducted in the last decade is provided in **Appendix 17**. This covers examples of reviews across a wide spectrum of services with some of the most effective outcomes having been achieved as follows:

**Table 25 – Waverley Council – Significant Efficiency and Service Utilisation Improvements 1999 to 2011**

| | |
|---|---|
| ▪ **Industrial agreement negotiations** | ▪ Two major re-negotiations of the pre-2000 Conditions Enterprise Agreement for staff have resulted in cessation of future accruals of paid untaken sick leave and gratuities and a capping of liabilities for ELE. This has prevented future accruals of at least $20 million in ELE that would otherwise have occurred.<br>▪ In Public Places Cleansing, industrial agreement negotiations have resulted in cessation of the task ("do and finish") system, expanded service coverage, and an extension of the hours worked by staff funded by re-distributing the way overtime is paid.<br>▪ In Domestic Waste Collection, industrial agreement negotiations resulted in a 25% increase in bins collected per truck and a reduction in staff and trucks required to service properties |
| ▪ **Organisational development** | ▪ Implementation of Business Excellence programs has improved the attractiveness of Council as an employer with improved staff retention rates – turnover dropped from 21% in 2005 to 9% in 2010 with attendant drops in the cost of staff replacement |
| ▪ **Asset management** | ▪ Development of an innovative alternative method for assessing the cost to renew assets has resulted in:<br>o an 84% drop in the assessed costs of asset renewal, and<br>o a 35% drop in the expected costs of ongoing asset maintenance compared to costs reported in 2004. |
| ▪ **Off-street parking operations** | ▪ By ceasing contracting out and progressively taking on operations of off-street car parks in-house, we have enhanced net returns by 230% since 2004, despite a drop in off-street parking demand and utilisation. |

| Table 25 – Waverley Council – Significant Efficiency and Service Utilisation Improvements 1999 to 2011 | |
|---|---|
| ▪ **On-street parking operations** | ▪ Through community consultation we have established an effective metered parking network for improved utilisation and sharing of Waverley's most scarce resource – a parking spot.<br>▪ Turned a mere 2,115 on-street spaces in commercial areas into more than 20,000 opportunities per day to find a parking space, with significant financial benefit for Council – a 406% increase in gross income from parking since 2000. |
| ▪ **Cemetery operations** | ▪ Income from gross sales has increased from $433,000 in 1999/00 to $1.36 million in 2009/10 – a 215% increase.<br>▪ Labour costs as a proportion of sales per annum have decreased by 43%. |
| ▪ **Child care** | ▪ Achievement of the highest rankings in accreditation processes has resulted in intense demand for Waverley's high quality child care and no risk of under-utilisation<br>▪ A >99% occupancy rate has achieved on an ongoing basis. |
| ▪ **Development approvals** | ▪ Total time taken to assess DAs has trended steadily downwards despite increasing urban density, increasing application number trends and complexity/dollar value of applications. |
| ▪ **Urban and economic planning** | ▪ Early adoption of the template and achievement of best practice in its use has enabled early gazettal of the Bondi Junction LEP and attendant release of improved economic potential of the land uses in this major regional centre. |
| ▪ **Investment planning** | ▪ Agreement by councillors on proposals for sale of $50 million of under-performing property for re-investment in property development has secured substantially increased financial returns on assets and improved QBL outcomes |
| ▪ **Long term integrated planning and resourcing** | ▪ Successive Long Term Financial Plans since 2008 have reduced assessed shortfalls for future services up to 2022 by:<br>o $52 million for existing services compared to the 2008 estimate in LTFS1; and<br>o $21 million for enhanced services in compared to the 2008 estimate in LTFS1.<br>▪ This quality planning has reduced the potential rate rise required to cover shortfalls from 13.33% foreshadowed in LTFP2 to 11.9%. |
| ▪ **Housing** | ▪ Development of an innovative financing strategy has facilitated the creation of an affordable housing portfolio comprising more than 25 housing units, and a 27% growth in units of social housing, all financed by developer contributions.<br>▪ The portfolio is run at a small profit per annum and provides housing stock for the socio-economically disadvantaged in Waverley with no cost imposition on ratepayers. |
| ▪ **Community services** | ▪ Established the acknowledged industry benchmark for accreditation of programs imparting independent living skills to the intellectually disabled<br>▪ Attracted additional funding to improve case worker/client ratio<br>▪ Substantially eliminated cash handling<br>▪ Client numbers in this service have tripled since 2000 |

## 7.1 Assessed Productivity Improvements in the Last 10 Years

Waverley Council is not aware of methods used by other councils to estimate and track changes in total efficiency over time. In the absence of agreed measures we have therefore, in each of our LTFPs, opted to measure efficiency gains since 2000 using a method and logic which assumes that productivity gains or losses can be measured by calculating growth in the units of labour as a proportion of growth in total non-labour expenditures discounted for inflation. We concentrate on labour efficiency because we are a service based industry and labour is the dominant cost driver.

Analyses using this method indicate that Waverley Council's productivity levels have varied quite widely on an annual basis from negative to positive over the last decade but on average have generally improved at somewhere between 1% and 1.5% per annum as shown below:

**Table 26 – Waverley Council – Assessed Productivity Improvement 2000 to 2008**

| Inputs / Outputs | Change between 2000 and 2008 |
|---|---|
| Staff equivalent full time numbers | Increased by 30% |
| Value/cost of works and services delivered | Increased by 74% |
| Proportion of services delivered by contracting out | No change |
| **Estimated increase in productivity 2000 to 2008** | **9%*** |

* = % Change between A and B, where A. is the value of services delivered per staff member in 1999/2000 in today's $ (excluding employee costs) = $66,064; and B. is the value of services delivered per staff member in 2007/2008 (excluding employee costs) = $72,198. Hence ((B–A)/A)*100.

**Table 27 – Waverley Council – Assessed Productivity Improvement 2000 to 2010**

| Inputs / Outputs | Change between 2000 and 2010 |
|---|---|
| Staff equivalent full time numbers | Increased by 35% |
| Value/cost of works and services delivered | Increased by 101% |
| Proportion of services delivered by contracting out | No change |
| **Estimated increase in productivity 2000 to 2010** | **15%*** |

* = % Change between A and B, where A is the value of services delivered per staff member in 1999/2000 in today's $ (excluding employee costs) = $68,864; and B is the value of services delivered per staff member in 2009/2010 (excluding employee costs) = $79,488. Hence ((B–A)/A)*100.

It's important to note that productivity movements from year to year are not uniform and may be negative. A negative movement for instance seems to have occurred in 2009/10 as shown below:

**Table 28 – Waverley Council – Assessed Productivity Movement 2009 to 2010**

| Inputs / Outputs | Change between 2009 and 2010 |
|---|---|
| Staff equivalent full time numbers | Increased by 1.26% |
| Value/cost of works and services delivered | Increased by 4.26% |
| Proportion of services delivered by contracting out | No change |
| **Estimated increase in productivity 2009 to 2010** | **(3.57%)*** |

* = % Change between A and B, where A is the value of services delivered per staff member in 2008/2009 in today's $ (excluding employee costs) = $82,435; and B is the value of services delivered per staff member in 2009/2010 (excluding employee costs) = $79,488. Hence ((B–A)/A)*100.

It is thought that this negative movement is due to poor performance in workers' compensation claims in that year arising from:

- increased exposure in manual handling problems particularly for our ageing workforce, and
- increased exposure to assaults of parking officers.

Based on the above variability of our experience it would seem prudent to assume continuing productivity improvements into the future at a rate of perhaps between 0.5% and 1.5% per annum in any one year, although, as the following section shows this may not be expected in the early years of the coming decade if current workers' compensation premiums persist. In building its financing strategy and determining a quantum of special rate variation required to bridge shortfalls Waverley has assumed an average 1.4% annual increase in productivity over the next 10 years. Wages and salaries in the base layer have been discounted to reflect this assumed productivity gain.

For a detailed discussion of the efficiency of directly employed labour as well as total labour (including contractors) see **Attachment 4**, LTFP3.1, Sections 9.2.1.2 and 9.2.1.3.

### 7.2 Potential Productivity Improvements in the Next 10 Years

Opportunities to continue the overall trend of increasing output have been identified in Council's *Workforce Plan 2010-2014.*

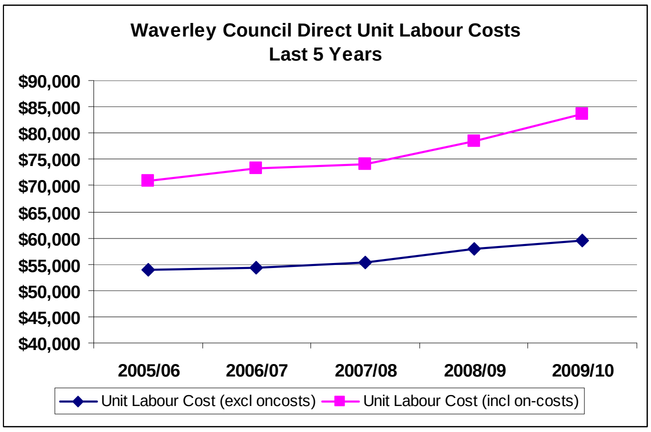
See **Attachment 5**, *Working Together, Workforce Plan 2010-2014*, page 33, for the program of business reviews and improvements scheduled for the next 4 years. Business improvement reviews are not limited to this schedule.

Additionally Council will continue to work within the Australian Business Excellence Framework which has led to several significant productivity improvements in the last 10 years, not the least of which was the SAMP process for reduction of asset renewal cost estimates and continuous improvement in asset management.

See SAMP3 Appendix A15 for the Continuous Improvement Program for Asset Management under the Business Excellence Framework.

A key area of focus for the future is workers' compensation and injury. This is probably the only area where Waverley is noticeably lagging behind industry benchmarks. Investment in reducing injury is already improving the risk profile of the organisation particularly with respect to parking officer exposure to assaults.

It is worth noting that while total labour costs have been rising in the last 5 years, *unit* labour costs before oncosts – ie., unit wages and salaries – have grown by only 8.5% compared to 2004/05 – a 1.67% average per annum increase. This is a creditable performance given that award increases have all been above 2.5%.




Unit labour oncosts have, however, grown by 20% over the same 5 year period, or an average of around 4.5% annually. In Waverley's case this is a function mainly of a 106% increase in workers' compensation annual premiums and a staggering 190% increase in superannuation costs brought on by the global financial crisis.

The former of these can and is being controlled with some success. The latter we can do nothing about. The extent to which we will be able to access efficiencies in the next 5 years is significantly challenged by this superannuation cost externality.

For the fullest discussion of productivity see **Attachment 4**, LTFP3.1 Chapter 9, Sections 9.1.1, 9.2.1, and 9.2.1.1 to 9.2.1.4.

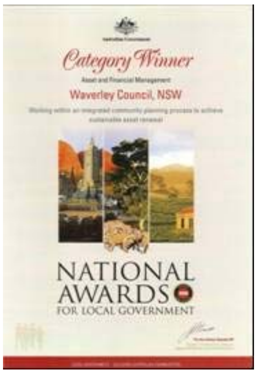
## 8. Implementation of the Integrated Planning & Reporting Framework

Has Council implemented the IPRF?

Yes [X] No [ ]

Waverley Council is a Group 1 Council for IP&RF.

The DLG has completed a thorough assessment of our IPRF and has found it to be fully compliant.

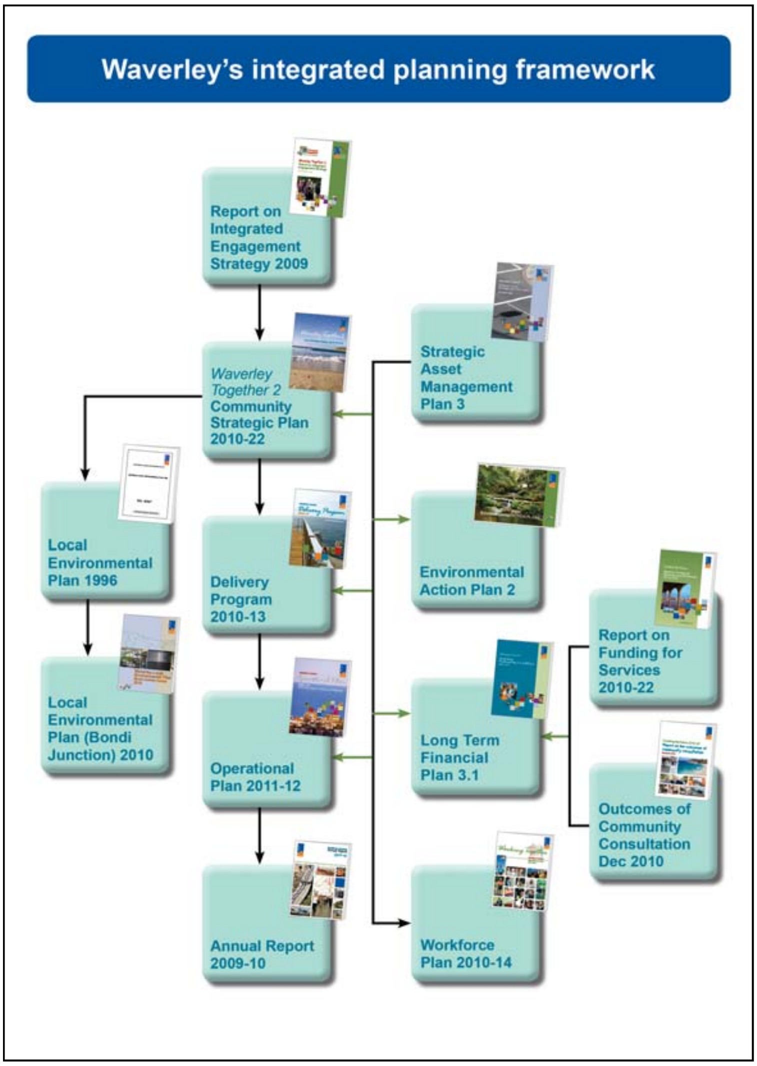



**Attachment 18** provides a letter of confirmation of Waverley's high level compliance with the IPRF from the DLG – December 2010

Council's implementation of the IPRF is considered by peers and external experts to be among the best in NSW and perhaps in Australia. See Sections 3 and 4 above for independent assessments of Waverley's IPRF.

Council has also won a National Award specifically for Working within an integrated community planning process to achieve sustainable asset renewal.

Council's IPRF contains a more detailed set of integrated plans, above best practice, including a fully costed Environmental Action Plan and a range of reviews of financial structure and community engagement to better support the development of an efficient Resourcing Strategy.




These extra plans and reports make Waverley highly confident of the efficiency of its Resourcing Strategy as the least cost way to deliver the most in sustainability over a long period.

The depth of detail provided in the plans on foreshadowed expenditures makes the Waverley plans much more than just an extrapolated budget running out assumptions without interrogation over a long period.

The Waverley community recently endorsed these plans and expressed significantly improved confidence in Council as a long term planner in the 2010 HVRF survey.

## 9. Other information

### 9.1 Special variation history

Council has made 2 applications for rate variations under Section 508(2) of the Act in the last 10 years. Both applications were successful.

The following table shows the history of approved rate variations.

**Table 29 – Special Variation History**

| Year | Percentage variation sought including rate peg | Percentage variation approved including rate peg | Period of variation approved (years) | Reason for variation |
|---|---|---|---|---|
| 2001/02 | 5.22% | 5.22% | 5 | Environmental Levy |
| 2006/07 | 7.64% | 7.64% | 5 | Environmental Levy |

All Environmental Levy funds are spent on environmental projects alongside other relatively small funding provided by Council to top up the levy. Council reports frequently to the community and councillors on total environmental expenditures of which the levy forms more than 80% in any one year. These reports are provided in various formats to the community and councillors at least quarterly. Most notable regular reports include:

- A 4 page quarterly report to every household on the environmental levy expenditures and achievements incorporated into our quarterly *Waverley in Focus* newsletter. *Waverley in Focus* is widely read by residents. Back issues of this are available on the web at:

  http://www.waverley.nsw.gov.au/your_council/council_news/waverley_in_focus

- Annual State of Environment Reports and 4 year Comprehensive State of the Environment Reports.

  http://www.waverley.nsw.gov.au/environment/state_of_the_environment

Web references for other reports and consultation programs are provided below.

| Strategy | Target Audience | Reference |
|---|---|---|
| **Reporting** | | |
| **Integrated Stormwater Management Plan 2001**<br>• Development of the Integrated Stormwater Management Plan 2001 -2006 in consultation with the Bronte Citizens Jury in 2000. The ISMP formed the basis for the 2001- 2006 environmental program | • Councillors<br>• Community | Web reference – Plans and Policies |

| Strategy | Target Audience | Reference |
|---|---|---|
| **Reporting** | | |
| **Waverley Tribune / Waverley in Focus**<br>• A four page Environmental Levy Report delivered to Waverley households each quarter since 2003 | • Letterbox drop to 31,000 households in Waverley each quarter | All archives of Waverley in Focus are on Council website |
| **Management Plan**<br><br>• Quarterly progress reports to Council and the community on the environmental levy project implementation | • Councillors<br>• Community | Management Plan 2004 / 7<br>• Pages 92, 172<br>• 4th Quarter Review pp 44, 58, 92, 98<br>Management Plan 2005/9<br>• Pages 61, 63, 226<br>• 4th Quarter Review pp 22, 23, 100, 103, 104, 106, 182<br>Management Plan 2006/10<br>• Pages 8,46,175, 183, 263, 264, 265<br>• 4th Quarter Review pp 15, 89, 91<br>Management Plan 2007/11<br>• Pages 7, 53<br>• 4th Quarter Review pp 20, 106, 107<br>Management Plan 2008/12<br>• Pages 18, 52, 53, 104 |
| **State of the Environment Reports**<br>• Annual progress to Council and the community on the environmental program with reference to environmental levy funded programs | • Councillors<br>• Community | Comprehensive State of the Environment Report 2001 – 2004<br>• Pages 3, 29, 34, 35, 78, 88<br>Comprehensive State of the Environment Report 2005 – 2009<br>Pages 4, 37, 38, 41, 73, 93, 107 |

| Strategy | Target Audience | Reference |
|---|---|---|
| **Consultation** | | |
| **Community Stormwater Panel 2001-2006**<br>• Establishment of the Community Stormwater Panel to oversee the implementation of projects / levy expenditure | • Selection of 16 community representatives via Expressions of Interest in Wentworth Courier in 2003<br>• Reported progress in Management Plan | |
| **Officer Stormwater Working Party 2001- 2006**<br>• Establishment of the Officer Stormwater Working Party with representatives from key Council departments that deliver environment levy programs | • Key internal staff reporting to the Executive Team<br>• Reported progress to Council as required | Management Plan |
| **Sustainability Committee 2005 - 2009**<br>• Establishment of the Sustainability Committee to oversee Council's Environment Program including environmental levy funded programs on a quarterly basis | • Selection of 10 community representatives via Expressions of Interest in Wentworth Courier / Sydney Morning Herald in 2005<br>• Quarterly reports to Council on meeting minutes | Website reports |
| **Environmental Sustainability Advisory Committee (ESAC) 2009 – present**<br>• Establishment of the ESAC to oversee Council's Environment Program including environmental levy funded programs on a quarterly basis | • Selection of 12 community representatives via Expressions of Interest in Wentworth Courier / Sydney Morning Herald in 2009<br>• Quarterly reports to Council on meeting minutes | Website reports |

### 9.2 Reporting

Waverley's rate variation application is for continuation of existing services and service levels *plus* enhancement of some services – that is, it is for *Service Plus*, as amended by Council's resolution of 14 December 2010.

Some of the expenditures in *Service Plus* are for those traditional tangible infrastructure items for which rate variations have historically been made. Other expenditures, however, are for operational improvements which Council considers are necessary if the community is to reach its targets as defined in *Waverley Together 2*.

As such the intended purposes are wide, not confined; and expenditures are as much about re-gearing existing operational services to meet the agreed community targets as they are about boosting asset renewal.

In our view, traditional reporting is not going to do the job here. It's not as easy as saying to the community "here's a list of defined works and here's what we spent". *Service Plus* is much more than that. Accordingly, we have designed a hybrid reporting mechanism which will show in tangible terms ***both***:

1. progress towards or away from the targets of *Waverley Together 2*; and
2. progress of the tangible inputs from Council to each target – which means reporting on how strategies were implemented as well as works.

This sort of reporting has been made possible because our strategies in the CSP have a direct connection with the targets of *Waverley Together 2*.

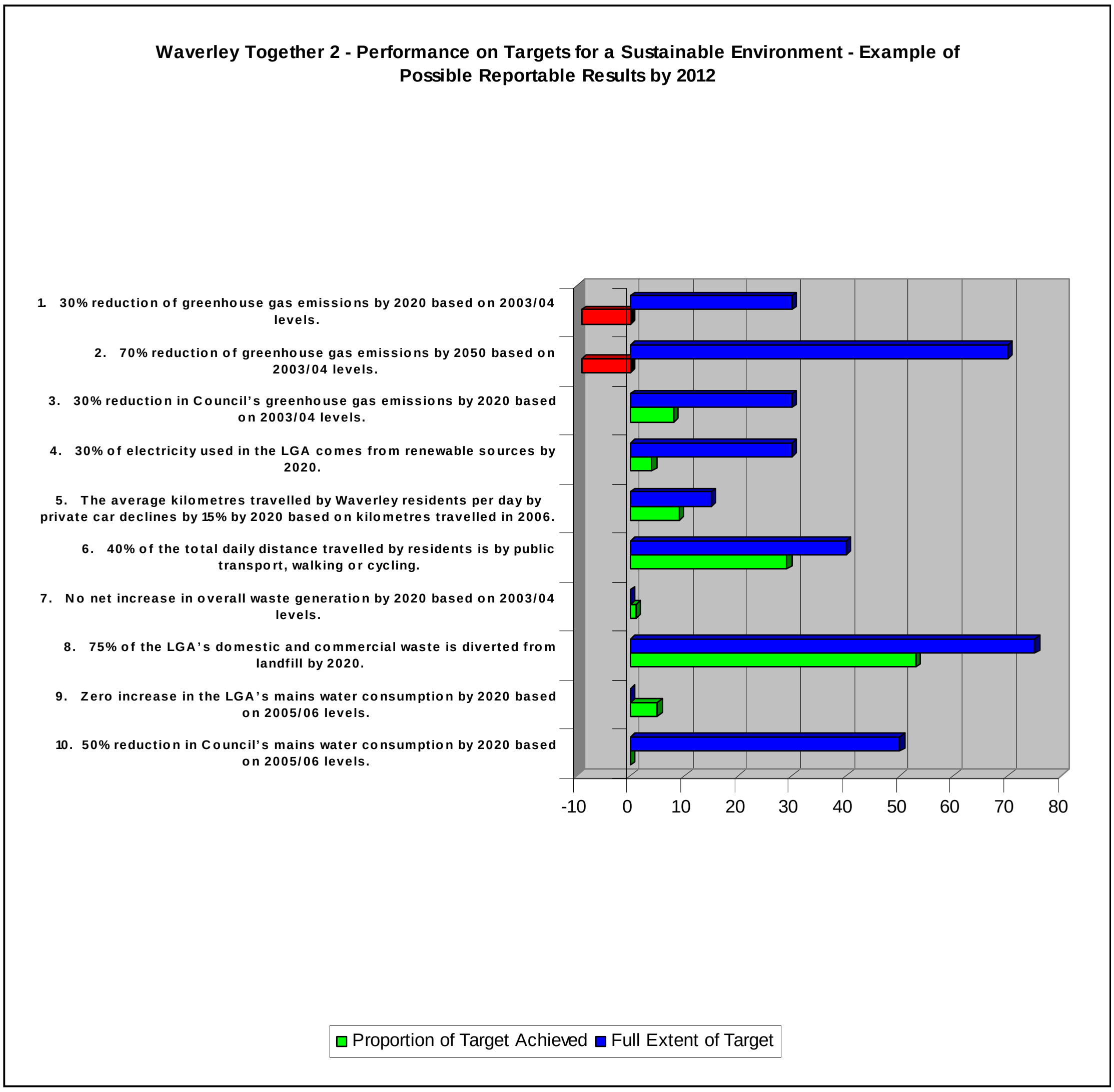
See **Attachment 2** for connections between strategies and targets in *Waverley Together 2*.

Progress on item 1 above will be reported at the end of each Council's elected term of office using pictures showing movement from the base lines established for all 60 targets for QBL sustainability in *Waverley Together 2*. A sample potential report is shown overleaf.

Progress on item 2 above will be reported via annual reports on the Operational Plan and Delivery Program. In the Operational Plan 2011/12, enhancement items in *Service Plus* have been isolated by a system of shading. However, it should be noted that not all these shaded items are actually funded by the rate rise. Reporting on them will nevertheless be integrated with the reporting on things that have been made possible by the rate rise.

This coordinated reporting is considered the best means of providing accountability for delivery of the **whole** of *Service Plus* – which is what the rate rise is for – rather than for isolated bits of *Service Plus*. The intention is that things in *Service Plus* made possible by a rate rise should be as clearly linked to outcomes for *Waverley Together 2* as things not funded by the rate rise.

The following picture is an example of the anticipated reporting format for progress on *Waverley Together 2* for outgoing elected Councils between now and 2022. This picture is for the Sustainable Environment Quadrant of the plan. There will be similar pictures for Sustainable Community, Sustainable Living, Sustainable Governance and a special one for Sustainable Assets showing movement in asset condition ratings over the Council's term of office. These pictures are to be read in conjunction with more detailed reporting on expenditures via the Operational Plan and Delivery Program reporting processes within the IP&R framework. This will enable to community to consider whether their money made a difference to quality of life, and it will help them make future expenditure decisions.




## 9.3 Council Resolution

The Council resolution of 14 December 2010 on the proposed rate variation is at **Attachment 10**.

## 10. Checklist of application contents

| Item | Included? |
|---|---|
| Community Strategy Plan, Delivery Program & Draft Operational Plan extracts | √ |
| Long Term Financial Plan extracts | √ |
| Asset Management Plan extracts | √ Web link provided |
| Performance indicators | √ |
| Proposed program of expenditure | √ |
| New capital financing strategy | N/A |
| Contributions Plan documents (if applicable) | N/A |
| Hardship policy | √ |
| Community engagement strategy | √ |
| Community feedback | √ |
| Annual Report extracts | √ |
| Resolution to apply for the special variation | √ |

Note that it is the responsibility of Council to provide all relevant information as part of this application. It is not the role of IPART to pursue Council for information already requested in this application template or the application guidelines.

## 11. Certification by the General Manager and the Responsible Accounting Officer

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

General Manager: Tony Reed

Signature: ______________________________

Date: ______________________________

Responsible Accounting Officer: Michael Mamo

Signature: ______________________________

Date: ______________________________