

ADDITIONAL ITEM

12 December 2012
To the Ordinary Council Meeting

Director's Report
GM's Unit

7.14 Service Standards Review - Results of Stage 2 Community Consultation

TRIM REFERENCE: F2012/00388 - D03209209

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SUMMARY

In November 2011 Council resolved to commence consultation with the community on service levels and community priorities in order to provide additional information to assist Council's Strategic Planning process.

Council's adopted Long Term Financial Strategy identifies the investigation of a Special Rate Variation (SRV) in 2013-2014 to fund essential infrastructure, subject to the assessment of service levels and community needs. Part of the investigation process requires Council to adequately consult with the community on willingness to pay increased rates.

The first phase of consultation was completed in May 2012 and the results were used to identify priorities for asset improvement spending in line with community service priorities. Council subsequently resolved in October 2012 to carry out further detailed community consultation during November/December 2012 on the community's willingness to pay for increased spending on asset improvements.

The second phase of detailed community consultation has been completed and this report contains details of the methods used and the response received. This stage of consultation gathered 1850 responses; stage 1 consultation gathered a further 184 responses in addition to over 3500 responses through the Community Strategic Plan process, resulting in over 5,300 responses guiding Council's decision-making process.

The report recommends a way forward for Council to ensure the financial sustainability to reduce the backlog of asset maintenance and being able to provide our community with the best level of service and facilities that we can.

RECOMMENDATION

- 1 That Council note the report on the Stage 2 community consultation.**
- 2 That Council direct the General Manager to:**
 - a Notify the Independent Pricing and Regulatory Tribunal by 14 December 2012 that Council intends to submit an application for a Special Rate Variation increase of 9.5% to ordinary general rates each year for 7 years from 2013/14 under S508A of the Local Government Act. Noting that there is no prejudice to Council's ability to stop any subsequent action on a Special Rate Variation application.**

- b Commence preparation of the Special Rate Variation application as set out in Recommendation 2 a).*
 - c Undertake further community consultation during January and February on the specific effects on the community of Options 1 and 2.*
 - d Report the results of the further community consultation during January/February 2013 to Council by 28 February 2013, at which time Council will need to determine if Council will be making Special Rate Variation application to Independent Pricing and Regulatory Tribunal.*
- 3 That Council not proceed with consideration of Option 3 (12.5% increase per year for 7 years).**

The Financial Dilemma

Council had recorded operating deficits for several years and decided in 2010 to put in place a strategy to reach a break even operating result by 2014/15, which was documented in the Long Term Financial Strategy. Over the past two years, Council has put significant effort into reducing its deficit, creating efficiencies and productivity improvements, implementing cost savings and increasing income to continue delivering a range of services to the community. This has reduced the deficit from \$30m to \$12m in two years, with further reduction to break-even in 2014/15.

Some of these efficiencies have included, but are not limited to, the following:

- **Technology savings in staff time, reduced staff numbers and ability to deliver improved service levels.** For example, increasing the use of infield technology for operational staff; revised tree assessment process; introduction of software for Council reports.
- **Energy and materials reduced costs .** For example: new lights in Council buildings (\$1.2m over 10 yrs); road pavement efficiencies and savings (09/10 patching was \$118m2 reduced to \$21m2 in 11/12); joint tendering with Gosford City Council; Workers Compensation management (\$250K savings).
- **Purchasing and internal services savings.** For example: creation of Legal counsel position (\$300K p/a); reduced use of body hire for project management (\$250k p/a); reduced consultancy costs through better use of staff expertise and staff availability due to other productivity gains.
- **Plant and equipment savings and efficiencies.** For example: downsized all vehicles to 4 cylinder; purchase different machinery to deliver faster service; changes to replacement time on vehicles (Nett one off saving for light vehicles was \$2.1M)

- **Staff numbers and efficiency.** For example: in 10/11 full time equivalent staff budget was 1150, in 13/14 it will be 1050 (9.5% reduction), in one year this resulted in actual savings of \$1.109m.
- **Increases in income.** For example, fees and charges increased by \$200K in 11/12; partnerships have been developed with sporting clubs / groups to co-fund capital works; grant funding continually applied for.

These savings have been realised despite significant pressure from increasing costs. Costs of energy and raw materials have increased well above Consumer Price Index (CPI) in recent years driven by factors such as the carbon tax, general electricity price increases and increases in the Environmental Protection Authority levy. In addition, Council is subject to the rate capping system in NSW which limits any increases. Generally the amount determined by the Independent Pricing and Regulatory Tribunal (IPART) is less than CPI. In Council's current Strategic Plan \$23million is also identified as a shift in costs from State to Local Government, for example: pensioner rebates; fire services; and flood mitigation.

Council has over \$2.5billion of ageing assets. Council's asset management systems have identified a significant shortfall in the amount of money being spent each year to renew assets so they remain in fit for purpose condition. This gap in asset renewal spending is detailed in Council's annual financial statements and was \$121m for the General Fund at the end of the 2011/12 financial year (eg: roads, drainage, parks, community buildings etc). For Council to bring these assets to a satisfactory standard requires \$121million. This includes only recorded asset classes and excludes natural assets which also represent a significant liability for Council in current and future years. Combining this with providing the services the community have become accustomed to, Council can not afford to do both.

Many Council services rely on the various assets that Council owns. If these assets are not maintained in good condition and renewed in a timely manner, they become expensive to operate and maintain, more costly to replace and do not provide the required level of service to the community. Currently, we are not replacing them at the same rate as they are wearing out, which has a major impact on future service level planning and Council's financial sustainability.

Increased spending on new assets instead of renewing existing assets means increasing maintenance, operating and depreciation costs, all of which directly affect the annual financial operating result. Delayed renewal of existing assets leads to increased operating and maintenance costs, which also impact the annual financial operating result.

The effort to find savings within the organisation will continue but there is limited scope for further significant savings at the level required. Council must now look at additional sources of income, otherwise asset condition will continue to deteriorate at an increasing rate, causing further long-term financial and service level problems for the community. Council's income base is limited due to existing IPART requirements for our Waste, and Water and Sewerage business. The only options to increase our income is through rates, fees and charges or grant funding which there is no guarantee that funding will be provided.

Due to the limited scope for further significant internal savings to meet this asset gap, in early 2012 Council commenced a process to identify how further financial sustainability could be achieved. Significant community consultation has occurred to identify values and priorities.

This information has been used to guide Council staff in planning future service levels and reviewing our Long Term Financial Plan. This work identified three scenarios for Council's financial future, which are outlined later in this report.

The need to address the financial dilemma issue has been re-enforced following a recent review by NSW Treasury Corporation, which raised concerns about Council's ability to fund the proposed level of future spending to bring current assets up to the required standard. The T-Corp Report stated:

- "Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its **cash and investment levels are forecast to be exhausted by 2016**.
- This is a **serious liquidity issue** which Council needs to consider, develop options and remodel. Should Council consider **adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense**, then additional borrowing could be considered"

In addition, Council also received a letter from Division of Local Government in January 2012 highlighting their concerns with Council's financial position as at 30 June 2011 after they undertook a review of Council's financial position. Their particular focus was on our deficit, low infrastructure renewal, shortfall in maintenance of assets and condition of our assets.

The Possible Solution

Council resolved in November 2011 to commence consultation with the community on service levels and community priorities in order to provide additional information to assist Council's Strategic Planning process. This was a follow on to the significant amount of community consultation Council has carried out in recent years. Examples include Quality of Life Survey, telephone and online customer satisfaction and reputation surveys, workshops, forums, world cafes and other activities for the Youth Engagement Strategy, Community Plan, Learning Communities Strategy, Community Facilities Review and On-Road Bicycle and Shared Pathways Strategy.

In preparing the Community Strategic Plan in 2009, Council undertook extensive and in-depth community consultations in 2007 and 2008, where more than 3,500 residents participated in various forms of consultation to identify the vision for the Shire and what were important for our community.

Following Council's decision in November 2011, the first stage of consultation was undertaken in May 2012 with 184 responses received via community workshops and an on-line survey. Stage 1 results also described the problems Council is facing in funding the \$121million in spending required as at 30 June 2012 to bring existing roads, drainage, community buildings, sport, leisure and recreation facilities, town centres, open space and the natural environment to a satisfactory standard.

The report to Council's Ordinary meeting of 24 October 2012 detailed the level of consultation that was carried out in Stage 1 of the Service Standards Review and highlighted the community overwhelmingly love their Shire and feel it is a good place to live and have a strong preference for Council to be financially sustainable.

Following on from this stage, significant work was undertaken with Service Unit Managers to understand what we know about community needs and our services and incorporate that with the information in Council's Asset Management system. This information along with the values identified by the community helped identify the high level priority areas for increased spending to bring assets up to a satisfactory standard in line with community expectations, quality asset management and public safety standards.

STAGE 2 ENGAGEMENT

The Options

The Stage 2 community consultation occurred in November and December this year and was designed to promote community involvement and provide information about the financial and asset funding issues including:

- Council's previous financial performance and forecast future performance
- Council's efforts to find substantial savings from within the organisation and maintain service levels
- The amount of funding needed to restore important assets to a satisfactory condition
- The three funding options developed to address the asset gap
- The effect of each funding option on the asset gap and Council's financial sustainability
- The additional cost of each funding option to ratepayers.

The three final options used in the Stage 2 community consultation included the following:

Option 1 - No additional rate income above the Rate Peg

In this scenario, rate increases are maintained at the annual amount approved by IPART, usually around 3%. This means that the level of proposed spending on asset renewals set out in the Long Term Financial Plan is not affordable and there would have to be cuts to the proposed capital expenditure and/or cuts to services.

The asset gap would not close and would actually get worse, asset maintenance costs will increase and future generations will have to meet the increased asset renewal cost. There would be no capacity to fund work on natural assets and no significant new asset works.

Option 2 - Real increased income of 6.5% above Rate Peg each year over 7 years

In this Scenario, there is an increase of 9.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. This increase would remain permanently in Council's rate base and after 7 years the increases would revert to the normal rate peg amount.

This Scenario is based on properly funding the Long Term Financial Plan, so the 7 year time frame is consistent with that plan. 7 years is also the maximum period for a Special Rate Variation approved by IPART, thereby minimising the annual cost increase. Asset conditions will improve significantly in this time and there would then be a substantial saving in annual asset maintenance costs of approximately \$3 million per annum. There is limited scope for spending on new assets.

Option 3 - Real increased income of 9.5% above Rate Peg each year over 7 years

This Scenario provides for an increase of 12.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. It is similar to Scenario 2 in closing the asset gap over 7 years, but allows an additional \$5 million per year that could be spent on new assets.

Some important factors to note in relation to these options:

- They only relate to the Ordinary Rates portion of the rates, estimated to be an average of \$868 per house. These options do not relate to water and sewer or waste charges.
- If successful, option 2 and 3 would commence in July 2013.
- Seven year time frame was the longest time permissible under the IPART guidelines, allowed the asset gap to be addressed in an optimal time and minimised the impact on rate payers

The Engagement Plan

Stage 2 consultation was developed in accordance with Council's Engage Me policy and framework and used a variety of methods to engage the community at the three different levels of inform, connect and engage.

The engagement process started on 14 November 2012 and was scheduled to cease on 2 December 2012. Due to the increased level of response in the last week and to allow extra time for postal replies to be received, the closing date for responses was extended to 4 December 2012. Approximately 40 voting forms have been received after the extended closing date and it was not possible to include them in the current analysis. However, they will be included in the final analysis along with any others received in the interim.

The condensed timing of this consultation phase was to deliver the message quickly to ensure it remained in people's mind, to focus attention on the proposed funding options and to meet IPART timeframes should Council decide to submit an application for a Special Rate Variation. Community consultation on this issue was not appropriate while the previous Council was in caretaker mode prior to the 2012 Council elections. The diversity of options to have a say were provided to enable the majority of people to have access to provide a response in a form that suited their situation.

Engage spectrum	Me	Description	Engagement modes
Inform		To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	<p>Local Radio and Newspapers</p> <ul style="list-style-type: none"> • 3 articles in Shire-Wide News • 5 media releases in local papers and radio stations • 6 paid advertisements in Central Coast Express/Advocate, Wyong Regional Chronicle and Central Coast Grandstand - over 300,000 exposures of these ads to local residents • 4 page supplement in the Express/Advocate on 16/11/12 – 58,000 circulation • 303 paid radio advertising spots on 2GO, SeaFM, StarFM • 20 community service announcements on 2GO • 10 x 15 second live reads just before news on SeaFM • 18 radio news items and 1 television news story on NBN • News articles in Express Advocate, Wyong Regional Chronicle and Lakes Mail. <p>Online presence</p> <ul style="list-style-type: none"> • Council's web-site uploaded with relevant information - 2,684 hits on council's web site • Council's on-line survey via web site engagement hub • Use of social media, Facebook and Twitter - 1,013 Facebook posts, 10 Twitter posts • Advertising on Business Insider web site, linking to Council's online survey. During the campaign the ads were delivered 4,776 times and the web site had 2,148 visits. <p>Face to face</p> <ul style="list-style-type: none"> • Information booklet produced, 2,900 hard copies distributed via libraries, child care centres, other Council facilities, Councillors, Council staff, local residents, shopping centre displays and commuters at railway stations • Manned displays at shopping centres – 18 hours total, 96 contacts • Customer Contact and Library staff actively promoted the process during each contact with the public. <p>Direct mail</p> <ul style="list-style-type: none"> • Electronic copy of the information booklet sent to all members of the Library Services database and Child Care data base - 3,200 contacts • Electronic copy of the information booklet sent to all ratepayers with an email address - 4,800 contacts • Electronic copies of the information booklet sent to Councillors, resident e-panel members, Precinct Committees, local community groups and committees for distribution to network contacts • Copy of information booklet posted to 12,700 non-resident ratepayers. <p>Passive notification</p> <ul style="list-style-type: none"> • Posters in Council facilities and outlying areas.

Engage spectrum	Description	Engagement modes
Connect	To obtain public feedback on analysis, alternatives and/or decisions.	<ul style="list-style-type: none"> • Direct discussions with staff • A random telephone survey of 400 residents conducted by an external independent provider • An online survey • Reply paid hard copy voting form (or drop off at a Council centre).
Engage	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	<ul style="list-style-type: none"> • 3 community workshops, 23 participants • 1 precinct committee workshop, 26 participants • 1 staff workshop, 12 participants • (Note: voting in workshops was via hand held devices).

As can be seen above there was significant investment to inform, connect and engage with the community about the process and the opportunity to have their say.

The Engagement Results

The response rate as at 4 December 2012 was as follows:

Response Rate	Engagement Strategy
61*	1 staff workshop, 3 community workshops and 1 Precinct Committee workshop
876	On-line survey
469**	Return mail
400	Random telephone survey
44***	Letters and submissions from community members and associations
1850	Total response rate for stage 2
184	Total response rate for stage 1
2034	TOTAL RESPONSE RATE FOR SERVICE STANDARDS REVIEW PROJECT
1770	Voting responses from Stage 2

* 19 attendees chose to not vote at the workshops – not included in the voting responses below

**17 respondents did not choose an option – not included in the voting responses below

***44 were attachments to voting forms or separate letters – not included in the voting responses below

The total number of voting responses was 1,770 as set out in the table below.

	Option 1	Option 2	Option 3
Workshops	17% (7)	64% (27)	19% (8)
Phone Survey*	51% (206)	41% (164)	8% (30)
Online Survey	66% (580)	21% (187)	13% (109)
Return Mail Survey	68% (307)	23% (106)	9% (39)

- This rate of response is high for a Council engagement process and the random telephone survey adds validity to the response.
- Preference for Option 2 in workshops
- Telephone survey - support for a rate increase
- Online and mail in - preference for Option 1
- Gender composition balanced for mail-ins; otherwise skewed towards males (workshops, online) or females (telephone)
- Suburbs generally well-represented in all modes
- Age groups skewed towards 45+ age groups in all modes.

Workshops

The workshops showed a high level of support (83%) for a rate increase. This is directly related to the opportunity for attendees at the workshops to discuss issues with staff and gain a better understanding of the options before making a decision. At the start of each workshop there were attendees who clearly stated that they would not support a rate increase above the rate peg and subsequently supported Option 2 when they better understood the issues. This provides confidence that Council's case for additional rate income is sound.

Telephone Survey.

Option 1 is the most preferred scenario (51%), but there is a significant proportion of the population (49%) that would accept a rate variation in order to maintain or improve assets.

During the phone survey, respondents were asked an additional question:

“ If Council was to determine that it should make an application to IPART for a special rate variation, on a scale of 1 to 5 (where 1 means not at all supportive and 5 means very supportive), how supportive would you be for Council to seek the following options? “ In answer to this question, 54% of respondents were 'somewhat supportive' of Wyong Shire Council seeking a special rate variation in order to maintain assets, as outlined in Option 2.

The telephone survey is a key element that IPART will consider, so the fact that 54% of respondents in the phone survey would support a rate increase if Council was to proceed is significant.

7.14 Service Standards Review - Results of Stage 2 Community Consultation (contd)

In addition to stage 2 results, previous random phone surveys have also asked questions about willingness to pay for improved service delivery, as highlighted below:

2010 Omnibus Survey

Survey question	Weekly amt \$1-\$2	Weekly amt \$50c - \$1	Weekly amt \$25c - \$50c	Weekly amt Nothing at all	Total
Willingness to pay for: Public works program	27%	25%	18%	30%	100%
Willingness to pay for: Environmental works program	23%	24%	23%	30%	100%
Willingness to pay for: Community Development program	19%	24%	27%	31%	100%

2012 Omnibus Survey

Survey question	Mean Rating	Weekly amt \$1-\$2	Weekly amt \$50c - \$1	Weekly amt \$25c - \$50c	Nothing at all	Don't know / Refused	Total (Weekly amt)
Community willingness to pay for:							
- Public works	2.6	27.4%	18.4%	9.1%	39.0%	6.1%	100%
- Environmental works	2.9	20.1%	17.4%	10.9%	44.8%	6.8%	100%
- Community Development	2.9	15.5%	19.0%	15.4%	42.2%	8.0%	100%

While the options presented in these surveys were not exactly the same as the current options, it supports the view that an informed community is more likely to support Council's decision to increase rates, especially where the proposed increases are seen to be a reasonable weekly amount. The priorities arising from these previous phone surveys are consistent with the community priorities used in the recent consultation.

Online and Mail in Survey

The high level of support for Option 1 from the online (66%) and mail in survey (68%) is significantly different to that of the workshops and telephone survey. It is reasonable to conclude that that the negative response to Options 2 and 3 is largely due to the lack of understanding of the asset gap and the funding options, together with the fact that in these types of situations the highest level of response is generally against significant change.

Although a presentation was provided on line and booklets outlining the issues were provided, it is difficult to confirm if the respondent did read the information.

Other submissions

The 44 separate submissions from community members and organisations were generally in support of no rate increase, although three did support Option 2. Many of the online and hard copy voting responses also contained comments on the proposed options and other issues. The overall level of response was significant and builds on the work that Council has done to develop and implement the Community strategic Plan.

Some of the feedback through the process can be broadly summarised as:

- Uncertainty about where the money will be spent
- Uncertainty about which services are at risk if Option 1 is adopted
- The size and affordability of the proposed increases
- Understanding Council's efficiency and financial management
- Perception of current lack of services
- Lack of adequate notification to all ratepayers and residents
- The short time frame for the consultation.

Overall, the results from the community workshops and telephone survey give the best indication of how the community will respond when properly informed. The issues listed above are also a direct result of the level of understanding which needs to be addressed so the community is better informed.

However, it is recommended that further consultation with those directly impacted through rate variations is deemed necessary to assist them to understand the potential impacts of either option. Details of a plan to address this are included in the section below.

PROPOSAL

Based on the feedback from stage 2, it is recommended that an additional consultation stage be developed as outlined below.

Additional Engagement Program

Recognising that Council wasn't in a place to identify specific impacts on services for either option at the time of the Stage 2 workshops, high level themes were provided based on what the community had already told us and information found in Council's Asset Management and Long Term Financial Plans.

Council staff are currently refining this information through the planning for 2013-17 Strategic Plan and recommend that a further community consultation process occur based on option 1 and 2 in January 2013. This stage of consultation will focus on the following:

- More detail on the savings and efficiency gains Council has made
- What services would be affected under option 1
- What assets would be improved under option 2
- Council has heard your concerns and is providing more information and another chance to have your say
- The response will focus on which option is supported
- Explanation of Council's December decision and acknowledge the major areas of concern raised during the current consultation.
- Gaining a higher response rate from the under 45 age groups.

It is recommended that Option 3 not have any further consideration due to the minimal level of support received.

Engagement strategies for the additional community consultation in January 2013 will include the following:

1. Media campaign to alert residents
 - Information will be placed on Council's website, facebook and twitter accounts
 - Utilise local media through media releases, Shirewide advertising, existing networks, e-panel and known respondents.
2. Further direct letter and supplement to all ratepayers in January rates instalment mail-out.
 - This will reach 51,000 instalment ratepayers.
 - The remaining 9,000 ratepayers who don't pay by instalments will be sent the same information at the same time. Noting that there are 4,700 of these 60,000 who can be contacted via email.
3. Online survey
 - This will contain the same questions as the supplement survey and will allow residents to provide their input.
4. Follow-up phone survey to previous respondents
 - This will allow for more information to be provided to those previous respondents and to seek their views on what services should be reduced if Option 1 is implemented.
 - It is likely that some of the original 400 previous respondents will not be contactable or will not respond, but this will be a valuable source of further information.
5. Precinct Committees
 - Work with the Precinct Committees to provide information and source feedback from the members in the time frames required.
6. Consideration of one workshop for community members.

The costs of this additional engagement program will be met through existing budgets and / or require a quarter review request. The result of this engagement phase will be reported to Council on 28 February 2013. At this time Council will need to make a final determination if a Special Rate Variation will be submitted to IPART by the closing date of 11 March 2013. If Council decides to move forward with a SRV, the results of this consultation will then be included in the application and in the 2013/17 IP&R documentation.

IPART Application

The purpose of this stage of the consultation was to inform the community of the asset funding issue and gain an indication of their willingness to pay increased rates to deliver improvements to existing assets and service levels. This is a necessary step in the process of deciding whether to apply to IPART for a Special Rate Variation.

Over the last two years, 25% of the councils in NSW have submitted applications to IPART for rate increases above the annual rate peg amount. The success of councils has varied, including changes to years, percentage increases or no increases approved in some cases.

The IPART guidelines for Special Rate Variations set out six criteria that must be satisfied to achieve a successful application. They are:

1. The need for and purpose of a different revenue path (as requested through the special variation) is clearly articulated and identified through the council's Integrated Planning and Reporting (IP&R) documents, including its Delivery Program and Long Term Financial Plan. Evidence for this criterion could include evidence of community need/desire for service levels/project and limited council resourcing alternatives and the Council's financial sustainability conducted by the NSW Treasury Corporation.

Status - Council has a high level of information about the community's desired levels of service, gathered over several years. This has been linked to information from our asset management systems to arrive at the priorities for increased asset spending.

As outlined previously a recent report from NSW Treasury Corporation clearly outlines their concerns about Council's financial sustainability, stating in part: "Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its cash and investment levels are forecast to be exhausted by 2016. This is a serious liquidity issue which Council needs to consider, develop options and remodel. Should Council consider adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense, then additional borrowing could be considered." The DLG has also expressed concerns about Council's financial position.

2. Evidence that the community is aware of the need for and extent of a rate rise. This should be clearly spelt out in IP&R documentation and the council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness/input. The IP&R documentation should canvas alternatives to a rate rise, the impact of any rises upon the community and the council's consideration of the community's capacity and willingness to pay rates.

Status - A wide range of engagement methods were used during the consultation process as set out in this report. The number of responses indicates that the community had a suitable level of awareness about the issue. In previous and the current IP&R documentation Council has highlighted the need for a special rate variation to address our financial and asset situation to take us forward into the future. The alternatives for a rate rise will be clearly set out in the draft 2013/17 IP&R documentation that will be on public exhibition in April 2013, prior to adoption by Council.

3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. Council's IP&R process should also establish that the proposed rate increases are affordable having regard to the local community's capacity to pay.

Status – In the inform strategies, clear documentation was provided to community members about the purpose of the variation in relation to addressing the asset gap, expected costs to the ratepayer and Council's overall financial position. There is further research to be done on the community's capacity to pay for a proposed increase. That will occur if Council decides to proceed with an SRV application and will also be included in the draft 2013/17 IP&R documentation that will be on public exhibition in April 2013, prior to adoption by Council.

7.14 Service Standards Review - Results of Stage 2 Community Consultation (contd)

Council's general rates are consistently below the average for Group 7 councils and the NSW average. This has kept the overall cost to ratepayers as low as possible for many years. Council's Hardship Policy will also assist those ratepayers who have difficulty in meeting their commitments.

4. The proposed Delivery Program and Long Term Financial Plan must show evidence of realistic assumptions.

Status - The current Delivery Program and Long Term Financial Plan both include realistic assumptions which are supported by detailed information from Council's Asset Management systems.

5. An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

Status - Council has reduced its operating deficit from \$30M to \$12M over the last 2 years and has a large amount of data to include in an SRV application to support this. Examples of some recent productivity improvements are outlined in the Background section of this report.

6. IPART's assessment of the matters set out below, against criteria 1-5 above.

- size of the council
- resources of a council
- size (both actual \$ and %) of increase requested
- current rate levels and previous rate rises
- purpose of the special variation
- any other matter considered relevant in the assessment of a special variation application.

Status - Council has had no previous Special Rate Variations. Current general rates are below both the average for Group 7 councils and the NSW average.

When Council commenced the Service Standards Review in May 2012, the process was based on full compliance with the IPART guidelines at that time. Prior consultation with the community has also been based on compliance with the IPART guidelines. IPART administers the SRV process on behalf of the Division of Local Government (DLG). In November 2012, the DLG issued amended guidelines as set out above. It was not until Council had commenced its Stage 2 engagement process that IPART was able to advise councils how the new guidelines would be implemented and the subsequent effect that has on councils considering an SRV.

The main focus of the new guidelines is to ensure councils have fully met their Integrated Planning and Reporting (IP&R) obligations and that the case for an SRV is fully documented in the 4 Year Delivery Program, Long Term Financial Plan and other associated documents. Consultation with the community must be carried out in conjunction with the development and adoption of these documents. Council has been working towards that objective. Some information is already in the current adopted IP&R documentation, the remainder can only be included after the current round of consultation and will be included in the 2013/17 IP&R documentation.

Advice from IPART is that to fully meet criteria 2 and 3, a council must have all documentation in its adopted 4 year Delivery Program before the SRV application closing date of 11/03/13. Council staff have challenged this interpretation of the guidelines and have raised concerns about the retrospective “changing of the goal posts” by DLG/IPART. Representations to both DLG and IPART are continuing with a view to quick resolution. The issue should not be a barrier to Council deciding to proceed with an SRV application.

There are 2 special variation options under the Local Government Act:

1. A single year increase under section 508(2). This can be a one-off (single year) percentage increase that remains permanently in the rate base or a one-off (single year) percentage increase that remains in the rate base for a fixed number of years. At the end of the fixed period the rate base is adjusted to match the rate peg path
2. A multi-year increase (of between 2 and 7 years) under section 508A. Successive annual percentage increases (for between 2 and 7 years), which remain permanently in the rate base.

The two SRV options discussed with the community (Options 2 and 3) both involve an application under S508A for increases over the maximum 7 year period. Anything less than this will not provide the necessary amount of funding over the optimum time frame for Council to carry out the asset improvement work, which if not completed will impact on the services and the ongoing maintenance costs of these assets.

In considering submitting an SRV application to IPART the following must be considered:

- Notification of intent submit to IPART is required by 14 December 2012. If this is made it does not prejudice the Council’s ability to stop any subsequent action on a Special Rate Variation application
- The submission to IPART is due on 11 March 2013
- The submission is a significant amount of work and will take staff months to develop the submission, this must commence December / January.
- Once submitted to IPART, IPART calls for public submissions on any applications received which provides residents and stakeholders an opportunity to provide comment directly to IPART. In addition, details will be included in Council’s draft 2013/17 Strategic Plan which will be on public exhibition during April 2013, Council will consider any submissions made at that time.
- IPART can decide to not approve an application, to amend the number of years or the level of increase.
- If IPART approve a SRV, Council can decide to not apply the full rate, this may happen if we’re tracking better than expected, if assets are rationalised or alternate sources of income are found
- If successful there will be requirements to report to the community on the status.

Since 2010 Council has been on the path to break even by 2014/15 which required a special rate variation to deliver the income required. Over the past year significant community consultation has occurred to identify the community’s values and desires and their willingness to pay for a special rate variation. The alternative is to reduce our level of service.

Council has undertaken productivity efficiencies which have produced an annual saving of \$18million, while still maintaining the broad level of service and increasing funds towards asset management. It is recognised that we can not provide services or assets at best practice level and we have over the years worked towards delivering services at a level which provides best value for our community. We can not continue to provide the level of services we currently do without further income or a reduction in services.

OPTIONS

Option 1 – Notify IPART of our intent (in December) to submit a Special Rate Variation and undertake a further engagement process focused on Option 1 and 2.

- This option is recommended as it does not preclude Council from not submitting an application by the due date of 11 March 2013. If it does not occur, there is no option to make an application for 2013/14.
- This option also provides more clarity to the community on option 1 and 2 and the specifics of what it will mean.
- A further report to Council will provide the results of this additional engagement process and will require a final decision from Council in February if a special rate variation application will be made.

Option 2 – Notify IPART of our intent and submit a Special Rate Variation for 2013/14

- This is not recommended at this stage. The community have highlighted their need for further information, which will assist them in making an informed decision. The additional engagement program will enable this to occur.

Option 3 – Delay IPART SRV application to beyond 2013/14

- This option is not recommended as it does not address the asset gap and our assets will continue to deteriorate leading to increased maintenance costs and possible rationalisation.
- There will need to be reduced levels of service to the community identified for 2013/14.
- There may be a requirement to recommence or undertake further engagement at a later date.

Option 4 – Do not submit a Special Rate Variation

- That would mean the asset gap would not be closed unless \$20M in service cuts, staff cuts and / or asset closures were implemented during 2013/14.
- This would require further community consultation to identify the services to be cut at such a large level.

STRATEGIC LINKS

Wyong Shire Council Strategic / Annual Plan

The proposal assists compliance with Council's Integrated Planning Framework through using community consultation to inform the Strategic Planning process.

Contribution of Proposal to the Principal Activity

The proposal affects all Principal Activities and Services as it is a review of all service levels across the organisation.

Long Term Financial Strategy

The proposal will provide information which will inform the Long Term Financial Strategy. Final decisions on a special rate variation will have impact on future expenditure and funding sources.

Asset Management Strategy

Assets are used to provide services. As this proposal will affect service levels, so it will affect the assets used to provide them.

Workforce Management Strategy

Staff resources are used to provide services so it will impact the Workforce Management Strategy.

Link to Community Strategic Plan (2030)

The proposal will impact on the services Council provides towards achieving the Community Strategic Plan objectives. They will be considered during the consultation and decision-making process.

Budget Impact

If required, a request for funding for the additional consultation in January/February 2013 will be submitted as part of the Quarterly Budget Review process.

CONSULTATION

Consultation undertaken in Stage 1 and 2 is outlined in the body of the report. In addition, extensive community consultation was undertaken with the community to develop the Community Strategic Plan and other strategic documents to guide the work of Council.

GOVERNANCE AND POLICY IMPLICATIONS

The proposal complies with Council's Engagement Strategy. It also complies with the Department of Local Government Integrated Planning and Reporting Framework requirements as the information gathered will be used in Council's Strategic Planning process.

MATERIAL RISKS AND ISSUES

If we don't thoroughly engage the community, there is no chance of a successful SRV application to IPART, should Council decide to adopt that option. This will lead to a financial situation where Council cuts to services and capital expenditure is a reality.

The proposed further consultation will support Council's chances of a successful SRV application and provide the community that had difficulty in choosing Option 1 or Option 2 with further information on what Council has done to improve the business and cut costs, where the money will be spent and what services would be impacted.

CONCLUSION

Council is facing a difficult decision, managing more than \$2.5 billion in ageing assets as well as continuing to provide the services the community has become accustomed to. With a shortfall in \$121 million to bring our assets up to a satisfactory condition and the increasing population coming into the area, the current status quo can not remain, services will need to be reduced or further income will be required. This will be dependent on the option adopted by Council.

Since 2010 Council has identified a clear path to be financially sustainable by 2014/15 which was reliant on productivity and efficiency savings as well as a Special Rate Variation. Without this approach, council's financial sustainability is at risk.

Independent reports from NSW Treasury Corporation and the Division of Local Government highlighted concerns with Council's financial sustainability and asset management. Council has worked toward addressing these concerns through the productivity improvements already underway and our approach to continuous improvement. Council's changes in its financial situation and the Service Standards Review program are evidence of the commitment to maintain best value services to the community.

Over the last five years Council has undertaken significant engagement with the community to identify their values and desires. This has been supplemented over the last year with Stage 1 and 2 of the Service Standards Review consultation. These stages have gathered over 2000 responses, in addition to the more than 3500 thousand responses received through the development of the Community Strategic Plan. While the response to date provides confidence that Council's case for additional rate income is sound, based on feedback from Stage 2 it is recommended that an additional engagement process be undertaken in January / February on option 1 and 2 only to assist Council to make a determination if a Special Rate Variation will be submitted to IPART.

ATTACHMENTS

1	Attachment 1 - Council report and resolution - Initiation of SSR - 23 Nov 2011	D03213298
2	Attachment 2 - Council report and resolution - Results of Stage 1 - 24 October 2012	D03213299
3	Attachment 3 - DLG Annual Financial Review - 27 January 2012	D03213300
4	Attachment 4 - WSC Response to DLG Annual Financial Review - 24 February 2012	D03213302
5	Attachment 5 - NSW Treasury Corporation Financial Assessment of WSC	D03213411
6	Attachment 6 - Presentation to Stage 1 Workshops - 2012	D03213318
7	Attachment 7 - DWG Workshops 1 and 2 - October 2012	D03213325
8	Attachment 8 - Stage 2 Workshops - November 2012	D03213333
9	Attachment 9 - SSR Brochure	D03213344
10	Attachment 10 - SSR Factsheet	D03213355

Att 1.

FOR ACTION

ORDINARY MEETING

23/11/2011

TO: Chief Financial Officer (Cate Travers)

Subject: 2012-16 Delivery Plan Community Survey
 Author: <AUTHOR>
 Target Date: 07/12/2011
 Notes:

RESOLVED unanimously on the motion of Councillor SYMINGTON and seconded by Councillor VINCENT:


- 1 That Council authorise the General Manager to commence consultation with the community on the 2012-2016 WSC Council Strategic Plan including defining the Four Year Delivery Plan service levels and community priorities.
- 2 That Council authorise the General Manager to engage an independent specialist to develop a Community Engagement Program and conduct a series of activities, including a Community Survey, in keeping with Council's Community Engagement Strategy, to determine the communities needs, service priorities, desired levels of service, and preparedness to pay for services.
- 3 That the General Manager report back to Council the initial results of the community engagement in March to inform Council's prioritisation of services and capital to enable the finalisation of the 2012-2016 WSC Council Strategic Plan.

FOR: COUNCILLORS BEST, EATON, GRAHAM, MATTHEWS, MCBRIDE, MCNAMARA, SYMINGTON, VINCENT, WEBSTER AND WYNN

AGAINST: NI

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A Resolution of Council has been assigned to you for Action.

- Click on the above link to view the action
- Click on the  Running Man icon on the EBP toolbar in Microsoft Word, to:
 - **add notes** regarding the progress of the action, or
 - **reassign** the action to another officer or
 - **finalise** the action.
- All of these tasks will automatically be updated in TRIM.

Infocouncil - Outstanding Actions (No. 15-107) (Admin)

Location: Details

Show all actions

Show actions for your location

Showing 1 of 1 actions

Problem	Date	Area	Priority	Due Date
Development Plans City Council Meeting	28 Apr 2008 27 Feb 2011	Dev. Dept. Waterworks Automated Service	3 1	12 May 2008 25 May 2008

23 November 2011
To the Ordinary Council Meeting

Director's Report
Corporate Services Department

6.4 2012-16 Delivery Plan Community Survey

IRIM REFERENCE: F2004-07C06 - D02835816

AUTHOR: Cate Inwards; Chief Financial Officer

0.49ARY

The adopted 2012-2015 WSC Strategic Plan identified Council's long term financial sustainability target of a break-even operating result by 30 June 2015, and that to achieve this Council would target an operating shortfall of \$10,000,000 in 2012-2013. Underpinning this there is a need to conduct community engagement and consultation to assess the communities' needs, service priorities, desired levels of service, and the preparedness to pay in order to achieve targeted annual reduction in services / service levels.

RECOMMENDATION

- 1 That Council *authorise the General Manager to commence consultation with the community on the 2012-2016 WSC Council Strategic Plan including defining the Four Year Delivery Plan service levels and community priorities.*
- 2 That Council *authorise the General Manager to engage an independent specialist to develop a Community Engagement Program and conduct a series of activities, including a Community Survey, in keeping with Council's Community Engagement Strategy, to determine the communities needs, service priorities, desired levels of service, and preparedness to pay for services.*
- 3 That the General Manager *report back to Council the initial results of the community engagement in March to inform Council's prioritisation of services and capital to enable the finalisation of the 2012-2016 WSC Council Strategic Plan.*

ORDINARY MEETING HELD ON 23 NOVEMBER 2011

RESOLVED unanimously on the motion of Councillor SYMINGTON and seconded by Councillor VINCENT:

- 1 That Council authorise the General Manager to commence consultation with the community on the 2012-2016 WSC Council Strategic Plan including defining the Four Year Delivery Plan service levels and community priorities.
- 2 That Council authorise the General Manager to engage an independent specialist to develop a Community Engagement Program and conduct a series of activities, including a Community Survey, in keeping with Council's Community Engagement Strategy, to determine the communities needs, service priorities, desired levels of service, and preparedness to pay for services.
- 3 That the General Manager report back to Council the initial results of the community engagement in March to inform Council's prioritisation of services and capital to enable the finalisation of the 2012-2016 WSC Council Strategic Plan.

6.4 2012-16 Delivery Plan Community Survey (contd)

FOR: COUNCILLORS BEST, EATON, GRAHAM, MATTHEWS, MCCOIDE, MCNAMARA,
SYMINGTON, VINCENT, WEBSTER AND WYNN

AGAINST: NIL

BACKGROUND

WSC is required to adopt the DLG's Integrated Planning and Reporting Framework from 1 July 2012 as part of the Group 3 Councils. To do this Council is required to have a Community Strategic Plan, Four Year Delivery Plan, Annual Plan, Long Term Financial Strategy (10 year) (LTFS), Asset Management Strategy and Workforce Management Strategy.

In 2010 Council implemented the framework as an initial step in complying with the requirements, however identified the need to further consult with the community on service levels and Council's long term financial sustainability. As part of this process Council timetabled programs for 2011-2012 to improve Council's financial position and inform Council's 2012-2016 Four Year Delivery Program priorities.

Council adopted the 2012-2015 WSC Strategic Plan on 22 June 2011 which included the Annual Plan and Four Year Delivery Plan, the Long Term Financial Strategy, Asset Management Strategy, and Workforce Strategy. The Long Term Financial Strategy identified future operating short-falls which are financially unsustainable, and adopted an intervention strategy to reduce Council's operating deficits to break-even by 30 June 2015.

The Long Term Financial Strategy identified for 2012-2013 the introduction of a change to the rating structure to a minimum rate and reduction of Operating Deficit to \$10,000,000 (short-fall). The Long Term Financial Strategy also identified the investigation of a special variation in 2013-2014 to fund essential infrastructure subject to the assessment of service level's community needs.

CURRENT STATUS

WSC has conducted significant consultation with the Community in the process of formulating and informing the Community Strategic Plan.

In 2008-2009 Council conducted a series of consultations with over 5,000 residents of Wyong Shire, information sessions and workshops with state government representatives and community reference groups that formulated priority objectives for how the Community could best improve the quality of life on the Central Coast over the next 20 years. The Community Strategic Plan was first adopted by Council in 2009, and updated in 2010.

In 2010 Council conducted a Service Delivery Review which focused on how Council could improve productivity for the operational service delivery process and resulted in a reorganisation of Council's internal resources. This resulted in identified savings / opportunities of \$900,000, and an on-going recurrent projected saving of up to \$7.6m per annum. To date as at the end August 2011, savings have been achieved including \$2.2m one-off and \$3.0m in recurrent savings. Council continues to review it's cost base and has been running internal innovation campaigns

In 2011-2012 Council identified the following actions in the LTFS to improve Council's long term sustainability including:

6.4 2012-16 Delivery Plan Community Survey (contd)

1. Review of LEP and a review of land zonings as appropriate
2. Establish a property investment portfolio and review existing property assets to maximise investment potential and future income generation
3. Review and reduce operating costs including asset rationalisation
4. Target annual reduction in Services / Service Levels, maximise user pays where appropriate and ensure prices reflect the actual operating costs of each service

Consultation on items 1 and 2 has already commenced, item 3 is being actioned through the individual service unit business plans, and item 4 requires Council to consult with the community on service levels, community needs, priorities and willingness to pay.

THE PROPOSAL

That Council develop a Community Engagement Program and engage an independent consultant with the necessary skills and experience to consult with the community on their service needs and expectations, priorities and preparedness to pay for changes in service levels, and report back to Council.

This Community Engagement Program will identify a series of consultations to occur with the community over twelve to eighteen months and provide information to inform the priorities in the 2012-2016 WSC Community Strategic Plan and to provide feedback to the community from the consultation.

The initial phase will include a Community Survey which provides a baseline for what the community values in service delivery and what their needs are. To ensure that the community outcomes are actionable by Council, this will include information on what different levels of service cost to provide and ask the community for feedback on what they are prepared to pay for different services.

As Council already has significant annual underfunding of recurrent expenditure (2010/11 Operating Deficit \$17.4m, 2011/12 Budgeted Operating Deficit \$14.9m), the challenge is to manage community expectations around what is affordable. This also represents the opportunity for the community to identify services they see as discretionary which Council should reduce to save costs / or divert money to more important services, and/or cease.

STRATEGIC LINKS

Wyong Shire Council Strategic/ Annual Plan

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities.

Contribution of Proposal to the Principal Activity

Council's services span all principal activities, with the potential of the community consultation impacting across the board. Due to unfunded issues it is expected that some services will increase, whilst others may decrease or alternate funding sources (eg user pays) be identified.

Long Term Financial Strategy

Council's LTFs identifies the challenges facing WSC in meeting the current levels of service in a financially sustainable manner and the projected operating short-falls without Council.

6.4 2012-16 Delivery Plan Community Survey (contd)

intervention. To address this Council has adopted a four year strategy to return Council's financial position to an Operating break-even (before capital grants) by 30 June 2015

Council's LTFS identified that:

"In 2011/12 Council will review Services and assets employed to maximise service delivery and economic outcomes for the community.

Long term financial sustainability is dependent on Council being able to meet daily operations (recurrent) expenditure within the Operating Income sources."

[Wyong Shire Council Strategic Plan 2011-2015, page 149].

Council's LTFS also adopted Financial Sustainability Targets to manage to an Operating Surplus and to achieve sustainability in asset management, through an adopted Building and Infrastructure Renewals ratio > 1.0 and an Asset Sustainability ratio of > 0.50 per year.

Asset Management Strategy

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities which will impact on what assets council employs to provide services, and what level of maintenance / operations are required to meet community needs.

Workforce Management Strategy

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities and may impact on the long term workforce requirements for council.

Link to Community Strategic Plan (2030)

The community consultation program will inform the 2012-2016 WSC Community Strategic Plan priorities

Budget Impact

Council's 2011-2012 Annual Budget includes a provision of \$30,000 for a Community Survey and \$20,000 resources to support the process through the ongoing implementation of the DLG's Integrated Planning and Reporting frameworks.

CONSULTATION

The subject of this report will form the basis of project brief and community consultation.

GOVERNANCE AND POLICY IMPLICATIONS

The results of the Community Survey will be to inform Council's Strategic Planning Framework.

MATERIAL RISKS AND ISSUES

Balancing community needs against Council's long term financial sustainability, to ensure that the community assets and amenity are maintained for future generations.

6.4 2012-16 Delivery Plan Community Survey (contd)

CONCLUSION

That Council authorise the General Manager to proceed with developing and implementing a community engagement program to provide information for decision making in the 2012-2016 Community Strategic Plan and that the initial results be reported back to Council's February planning workshops and to Council to assist in determining the prioritisation of Council's services, establish agreed service levels, and ensure the communities understanding of the costs of different service provisions.

ATTACHMENTS

Nil.

FOR ACTION

ORDINARY MEETING

24/10/2012

TO: Manager Workplace Change (Darryl Rayner)

Subject: Service Standards Review - Results of Stage 1 Community Consultation
 Author: <AUTHOR>
 Target Date: 07/11/2012
 Notes:

RESOLVED unanimously on the motion of Councillor NAYNA and seconded by Councillor WEBSTER:


- 1 That Council receive the report on the Service Standards Review and note the conclusion.
- 2 That Council conduct a second phase of detailed community consultation during November/December 2012, on the community's willingness to pay for each of the three Funding Scenarios.
- 3 That Council request the General Manager to report the results of this consultation as soon as possible after completion.
- 4 That Council delegate to the General Manager the authority to take necessary action to comply with IPART deadlines for a Special Rate Variation application during December, 2012, subject to:
 - a) the results of the November consultation showing community support for such action
 - b) any such action being reported to the first Ordinary meeting of Council in 2013
 - c) there is no prejudice to Council's ability to stop any subsequent action on a Special Rate Variation application.

FOR: COUNCILLORS BEST, EATON, GRAMHAM, GREENWALD, NAYNA, TAYLOR, TROY, VINCENT AND WEBSTER

AGAINST: NIL

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InfoConrad - Outstanding Actions for Bradley Council

Show all actions
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Showing Actions for ALL DIVISIONS (136 Actions in total)

Meeting	Date	Time	Draw No.	Exp. Comm.
Development Panel	28 Apr 2008	First Draft Watermark	3 1	12 May 2008
Industry Meeting	27 Feb 2008	Performance Review	7 1	29 Mar 2008

Close

ADDITIONAL ITEM

24 October 2012

Director's Report

To the Ordinary Council Meeting

Corporate Services Department

5.5 Service Standards Review - Results of Stage 1 Community Consultation

TERM REFERENCE: F2012/00388 - 003033E13

MANAGER: Maxine Kenyon, Director, Community and Recreation Services

AUTHOR: Dany Hayner, Manager, Workplace Change

SUMMARY

Over the past two years, Council has put significant effort into reducing its deficit, creating efficiencies and productivity improvements, implementing cost savings and increasing income to continue delivering a range of services to the community. This has reduced the deficit from \$39m to \$15m in two years, with further reduction to break-even in 2014/15.

There is now limited scope for further significant internal savings, so in early 2012 Council commenced a process to identify how further financial sustainability could be achieved. Significant community consultation has occurred to identify values and priorities. This information has been used to guide Council staff in planning future service levels and reviewing our Long Term Financial Plan. This work has identified 3 scenarios for Council's financial future.

This report highlights the consultation undertaken to test these three scenarios and recommends an extensive engagement process with the community during November/December 2012 on these scenarios and their willingness to pay for these services levels.

RECOMMENDATION

- 1 ***That Council receive the report on the Service Standards Review and note the conclusion.***
- 2 ***That Council conduct a second phase of detailed community consultation during November/December 2012, on the community's willingness to pay for each of the three Funding Scenarios.***
- 3 ***That Council request the General Manager to report the results of this consultation as soon as possible after completion.***
- 4 ***That Council delegate to the General Manager the authority to take necessary action to comply with IPART deadlines for a Special Rate Variation application during December, 2012, subject to:***
 - a) ***the results of the November consultation showing community support for such action***
 - b) ***any such action being reported to the first Ordinary meeting of Council in 2013***
 - c) ***there is no prejudice to Council's ability to stop any subsequent***

5.5 Service Standards Review - Results of Stage 1 Community Consultation (cont'd)

action on a Special Rate Variation application.

BACKGROUND

Council's adopted Long Term Financial Strategy identifies the investigation of a Special Rate Variation (SRV) in 2013-2014 to fund essential infrastructure, subject to the assessment of service levels and community needs. An essential first step in analysing the need for such a variation is to assess service levels and community needs. Council resolved in November 2011 to commence consultation with the community on service levels and community priorities in order to provide additional information to assist Council's Strategic Planning process. The major focus on improving Council's financial situation was well underway at the time and this type of information is essential for sound business planning. While efforts to reduce Council's operating deficit were starting to have positive impact, the cost of future service levels also needed to be taken into consideration. Until the community's required service levels are known, accurate future costing cannot be developed, so the community consultation process is an essential first step. Consulting firm Tenix/Twyfords was engaged to facilitate the community consultation process, using best practice techniques.

Council has adopted a community engagement framework "Engage Me" which is based on industry best practice. For Stage 1 of the SSR, a Community Engagement Plan was developed using the "Engage Me" framework. The community engagement process was branded "Your Place, Your Say, Your Future" and was designed to inform and connect with the community. A summary of the various methods used is set out in the table below:

Engage spectrum	Me	Description	Engagement modes
Inform		To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	<ul style="list-style-type: none"> • Fact sheets • Paid advertising-Radio and print media • Mayor's column • Emails to community groups and associations • 1300 postcards handed out at railway stations, libraries, child care centres and events. • 50 posters at community facilities and Council • Council's web-site and social media • Council staff word of mouth
Connect		To obtain public feedback on analysis, alternatives and/or decisions.	<ul style="list-style-type: none"> • Reputation survey 2010, 500 participants • Omnibus surveys 2010, 153 participants • Omnibus surveys 2012, 415 participants • Online survey 2012, 112 participants
Connect		To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	<ul style="list-style-type: none"> • 3 community workshops, 37 participants • 1 staff who are residents workshop, 35 participants

5.5 Service Standards Review - Results of Stage 1 Community Consultation (contd)

The analysis was also informed through the significant amount of community consultation Council has carried out in recent years. Examples include Quality of Life Survey, telephone and online customer satisfaction and reputation surveys, workshops, forums, world cafes and other activities for the Youth Engagement Strategy, Community Plan, Learning Communities Strategy, Community Facilities Review and On-Road Bicycle and Shared Pathways Strategy. In preparing its Community Strategic Plan in 2009, Council undertook extensive and in-depth community consultations in 2007 and 2008, where more than 3500 residents participated in various forms of consultation for a number of different Council strategic programs.

Tenix/Twyfords analysed all the available data using a recognised methodology and produced a report on the results of the consultation. Some of the Highlights from the Stage 1 consultation were:

- Shire residents overwhelmingly love their Shire and feel it is a good place to live
- Strong preference for Council to be financially sustainable
- General preference among residents for maintaining and protecting the bushland, coastline, lakes and the estuary within the Shire
- Strong support for cycle-ways, sports and recreation facilities
- Strong preference for sustainability
- Preference for libraries and community centres, facilities that help promote community spirit.
- Consistently strong preference for high quality roads and drainage
- Strongly favour generation of local employment opportunities and development of tourism
- Low to medium satisfaction with the overall levels of service provided

Using this information, Council's Service Unit Managers have compared the community's required levels of service against the current level of service being provided to identify gaps in required service levels. The next stage of the process is to identify the cost of future service levels and the options to fund them.

Based on the results of Stage 1, staff have developed a number of funding options (scenarios) to meet the community's required service levels in future years. During October 2012, Tenix/Twyfords facilitated discussions on these scenarios with a Deliberative Working Group (DWG) of 14 community members to test the scenarios and seek a preference for the most suitable one. The DWG members were sourced from Council's Resident e-Panel and involved a mix of gender and age groups. They attended two x three hour sessions with Council staff, facilitated by Tenix/Twyfords. There was no payment to members of the DWG for their involvement.

A Deliberative Working Group is not a decision-making body. Its role is to provide thoughtful and informed input to Council on each of the draft proposed funding options, to help Council finalise the funding options to take out to the broader community. The group considered issues such as:

- likely impact on the community of the various options
- advantages and disadvantages of each
- areas needing further consideration by Council (for example, how to minimise impacts)

5.5 Service Standards Review - Results of Stage 1 Community Consultation (contd)

- things Council may have missed, ways to improve fine options
- the validity of assumptions underlying each of the funding options

The DWG also provided input as to the draft option they prefer, using criteria that were developed during the sessions

Having received this input and worked with the DWG, Council is in a position to finalise the funding options with confidence.

THE PROPOSAL

It is proposed that Council use the 3 scenarios for Council's financial future as a basis for extensive community engagement during November/December 2012. This will provide an indication of the community's willingness to pay for each of the scenarios and service levels. It will also provide valuable service planning information and assist in meeting the Independent Pricing and Regulatory Tribunal's (IPART) requirements should Council decide to submit an application for a Special Rate Variation.

The next step is to use the scenarios for detailed and extensive community consultation during November/December 2012. As two of the three scenarios require additional income to fund them, this round of consultation must address the community's willingness to pay for increased levels of service. If Council were to decide to proceed with an SRV application to IPART, proof of extensive community consultation and the community's willingness to pay is required to meet IPART guidelines.

Many Council services rely on the various assets that Council owns. If these assets are not maintained in good condition and renewed in a timely manner, they become expensive to operate and maintain, more costly to replace and do not provide the required level of service to the community. We are not replacing them at the same rate as they are wearing out, which has a major impact on future service level planning and Council's financial sustainability.

Council's asset management systems have identified a significant shortfall in the amount of money being spent each year to renew assets so they remain in fit for purpose condition. This gap in asset renewal spending is detailed in Council's annual financial statements and was \$142m for the General Fund at the end of the 2010/11 financial year. The need to address the issue has been re-enforced following a recent review by NSW Treasury Corp, which raised concerns about Council's ability to fund the proposed level of future spending to bring current assets up to the required standard. The T-Corp Report stated:

- "Although Council has strong debt servicing abilities, as indicated by its high forecast DSCR and Interest Cover Ratios, its **cash and investment levels are forecast to be exhausted by 2016**.
- This is a **serious liquidity issue** which Council needs to consider, develop options and remodel. Should Council consider **adjusting its capital expenditure program to an affordable level, source additional operating cash flow or reduce operating cash expense**, then additional borrowing could be considered"

Increased spending on new assets instead of renewing existing assets means increasing maintenance, operating and depreciation costs, all of which directly affect the annual

5.5 Service Standards Review - Results of Stage 1 Community Consultation (contd)

financial operating result. Delayed renewal of existing assets leads to increased operating and maintenance costs, which also impact the annual financial operating result.

Not surprisingly, the asset areas where there is the most significant gap in renewal spending also correspond to those services which the community has shown the highest priority for improved service levels. In other words, we are not spending enough to renew and maintain the assets that can help improve desired service levels to the community.

By using the information from the community and combining it with the asset management information that has been developed over a number of years, the high priority asset areas have been identified for additional renewal funding. Staff have analysed the various options to provide the income to support the level of asset renewal expenditure that is set out in Council's Long Term Financial Plan. A number of funding options (Scenarios) have been prepared and three Scenarios were presented to the Deliberative Working Group (DWG) for discussion and testing. While the size of the group was relatively small, the quality of input provided by the group members was very high and added value to the process.

It was made clear to the DWG members that their role was to provide valuable comment to assist Council's decision-making on whether to proceed with further detailed community consultation and that there were several steps before Council would make a decision on which Scenario to pursue. Further, should Council decide to lodge an application with the Independent Pricing and Regulatory Tribunal (IPART) for a Special Rate Variation, the IPART review of Council's application would be very stringent and there would be no guarantee of approval. There would also be time for the community to make comments on Council's application directly to IPART.

Many key issues were raised and discussed during the sessions. These have provided valuable guidance for the next round of consultation. The criteria developed and used by the DWG in testing the Scenarios were:

1. Cost and affordability	How affordable is the proposed cost increase to the community?
2. Level of benefit to the community	What benefits will the community receive? Are there spin-off benefits such as employment generation, community capacity building?
3. Cost-effective use of the funds	Will this allow for best use of the funds? Will results be financially sustainable?
4. Meeting community needs	Does this meet demonstrated community needs?
5. Achievable	Can Council achieve the proposed program?
6. Level of dis-benefit to the community	What is lost/not achieved through this option?
7. Fairness and Equity	Are the costs and benefits spread fairly across the community and across current and future generations?
8. Effectiveness	Does it fix the problem in a timely manner?

One of the key messages delivered to the DWG was that while Council has improved its financial position in recent years and will continue to look for internal savings, this will not be sufficient to provide the funding necessary to close the asset gap. This discussion focussed on the cost savings and productivity improvements that staff have implemented in recent years, together with the commitment to keep pursuing future savings through better business planning. While a number of options have been considered, the reality is that additional

5.5 Service Standards Review - Results of Stage 1 Community Consultation (contd)

general rate income is needed or cuts to services will be necessary. The current level of rate increase allowed each year (the Rate Peg) is usually around 3% and is not keeping pace with the increases in Council's cost base.

Scenario 1 - No additional rate income above the Rate Peg

In this scenario, rate increases are maintained at the annual amount approved by IPART, usually around 3%. This means that the level of proposed spending on asset renewals set out in the Long Term Financial Plan is not affordable and there would have to be cuts to the proposed capital expenditure and/or cuts to services.

The asset gap would not close and would actually get worse, asset maintenance costs will increase and future generations will have to meet the increased asset renewal cost. There would be no capacity to fund work on natural assets and no significant new asset works.

Scenario 2 - Real increased income of 6.5% above Rate Peg each year over 7 years

In this Scenario, there is an increase of 9.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. This increase would remain permanently in Council's rate base and after 7 years the increases would revert to the normal rate peg amount. This Scenario is based on properly funding the Long Term Financial Plan, so the 7 year time frame is consistent with that plan. 7 years is also the maximum period for a Special Rate Variation approved by IPART, thereby minimising the annual cost increase. Asset conditions will improve significantly in this time and there would then be a substantial saving in annual asset maintenance costs of approximately \$3m per annum. There is limited scope for spending on new assets.

Scenario 3 - Real increased income of 9.5% above Rate Peg each year over 7 years

This Scenario provides for an increase of 12.5% in General Rates (assuming the Rate Peg is 3%) each year for 7 years. It is similar to Scenario 2 in closing the asset gap over 7 years, but allows an additional \$5m per year that could be spent on new assets.

DWG Results

After lengthy discussion about each Scenario, the DWG members assessed each one against the criteria that they had developed during the workshops. Based on the criteria and their understanding of the information presented, they were asked to identify their preferred Scenario and why.

- 12 of the 14 DWG members identified Scenario 2 as the preferred option; citing reasons such as fairness and equity, affordability, outcomes are predictable, smallest cost for maximum benefit to most, best outlook for Shire without too much pain, greatest cost/benefit.
- 2 of the 14 DWG members identified Scenario 3 as the preferred option; citing reasons such as most forward thinking, positive entrepreneurial.
- There was no support for Scenario 1 as the preferred option.
- 10 of the 14 members identified Scenario 1 as the least preferred option; citing reasons such as no benefit to community if asset gap widens, additional future costs, unsustainable in the long term, thinking small, negative attitude to progress, doesn't meet community needs.
- The remaining 4 members identified Scenario 3 as the least preferred option.

Overall, Scenario 2 was seen as the best option for the community. Because of the small size of the group, this cannot be used as a basis for any decision on future funding options, particularly a Special Rate Variation. However, the level of review and testing of the 3

5.5 Service Standards Review - Results of Stage 1 Community Consultation (contd)

Scenario's provides confidence that no significant issues have been missed and that Council could use these Scenarios for further detailed community consultation.

Council should now consider moving to the next step in the "best practice" approach. That step is about further discussion with the broader community through a variety of means such as phone surveys, on-line surveys, community meetings and workshops, media publicity and mail-outs to residents/ratepayers. Significant community engagement is required at that stage to gather further information about the community's preferences for the Scenarios. A comprehensive engagement plan will be implemented to ensure community input is as wide as possible and addresses issues such as broad representation of ages, gender and other demographics. Various options will be in place to ensure community members are aware of the process, have ease of access to information and ability to have input.

Information provided through Stage 2 of engagement is focussed on the financial and service impacts of the Scenarios and explores the community's willingness to pay for additional services and/or accept reductions in some services. Funding options such as increases in fees and charges, use of loans and grants, identifying new revenue sources and applying to IPART for a Special Rate Variation will be clearly communicated and discussed during these consultations. This step will also be facilitated by Tenix/Twyfords as part of their current engagement with Council.

The results of this round of consultation will then be used to prepare a report to Council in December 2012. This report will seek Council direction on a range of issues that will affect preparation of the 2013/17 Strategic Plan. Any proposed changes to service levels and the subsequent financial impacts will need to be clearly identified as part of the Strategic Plan process and built into the annual budget and Long term Financial Strategy. If Council needs to seek a Special Rate Variation (SRV) from IPART for 2013/14, IPART deadlines normally require formal notification of Council's intent to apply before mid- December 2012. If Council does not proceed with an SRV application, the information gained from this consultation is necessary for sound business planning.

It is possible that the IPART deadlines and Councilor availability during December 2012 could create difficulties in scheduling a Council meeting to consider the results of the November/December community consultation and a possible application to IPART. It is proposed that the General Manager be given delegated authority to comply with IPART deadlines for notification of intent to submit an SRV application, subject to the results of the community consultation supporting this approach. Any such action would have to be endorsed by Council at its first meeting in 2013 and would still allow Council to cease the SRV application process before a final application is prepared and submitted.

OPTIONS

Option 1

Council could modify Stage 2 by not proceeding with the detailed community consultation during November. This would mean that should Council consider submitting an application to IPART for a Special Rate Variation, it would not be achieved for the 2013/14 financial year. This is not recommended. Adopting a less thorough approach, or doing no more than what has been currently done, will not provide the level of information needed for sound long-term planning and decision-making on service levels. In turn, that will limit Council's ability to

5.5 Service Standards Review - Results of Stage 1 Community Consultation (contd)

reach its financial sustainability targets and place pressure on future service levels in any case.

Option 2

The recommended approach as detailed in this report is considered "best practice". It will provide valuable service level planning information and will comply with IPART guidelines should Council wish to proceed with an SAV application.

STRATEGIC LINKS

Wyong Shire Council Strategic/ Annual Plan

The proposal assists compliance with Council's Integrated Planning Framework through using community consultation to inform the Strategic Planning process.

Contribution of Proposal to the Principal Activity

The proposal affects all Principal Activities and Services as it is a review of all service levels across the organisation.

Long term Financial Strategy

The proposal will provide information which will inform the Long Term Financial Strategy. Decisions arising will have impact on future expenditure and funding sources.

Asset Management Strategy

Assets are used to provide services. As this proposal will affect service levels, so it will affect the assets used to provide them.

Workforce Management Strategy

Staff resources are used to provide services so it will impact the Workforce Management Strategy.

Link to Community Strategic Plan (2030)

The proposal will impact on the services Council provides towards achieving the CSP objectives. They will be considered during the consultation and decision-making process.

Budget Impact

A request for funding has been submitted as part of the Quarterly Budget Review process.

CONSULTATION

As set out in the report, the broader community has already been consulted during Stage 1. The proposal will build on that consultation and provide more detailed information to as many community members as possible. It will seek community input to guide significant Council

5.5 Service Standards Review – Results of Stage 1 Community Consultation (contd)

decisions on future levels of service provided to the community and Council's financial sustainability.

GOVERNANCE AND POLICY IMPLICATIONS

The proposal complies with Council's Engagement Strategy. It also complies with the Department of Local Government Integrated Planning and Reporting Framework requirements as the information gathered will be used in Council's Strategic Planning process.

MATERIAL RISKS AND ISSUES

If we don't thoroughly engage the community there is no chance of a successful SRV application to IPART, should Council decide to adopt that option. This will lead to a financial situation where Council cuts to services and capital expenditure is a reality.

CONCLUSION

The information to be gained through the proposed engagement process is crucial to securing Council's financial future while also addressing community service priorities. It is an important element of good business planning and will help in delivering best value service to the community. It also provides support for an SRV application to IPART should Council decide to do so.

ATTACHMENTS

Nil.



Premier & Cabinet
Division of Local Government

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Locked Bag 3015 NCWRA NSW 2541

Our Reference: A269352
Your Reference:
Contact: Marilyn McAuliffe
Phone: 02 4428 4141

Mr Michael Whittaker
General Manager
Wyong Shire Council
PO Box 20
WYONG NSW 2259

Mike
Dear Mr Whittaker

I am writing in regard to Wyong Shire Council's financial position as at 30 June 2011.

The Division of Local Government has completed an annual financial review of all NSW councils based on their latest financial reports and other relevant information.

A review of Wyong Shire Council's 2010/11 financial statements has raised the following concerns regarding Council's financial position:

- Consolidated net operating result before capital grants and contributions has been in deficit for the last 5 years, together with ongoing forecast deficit results in Council's Long Term Financial Plan
- Deficit net operating results before and after income for capital purposes in the Sewerage Fund over the past 4 years
- Deficit net operating results before capital items in the Water fund for the last 4 years
- A high percentage of outstanding rates and annual charges, indicating that Council's debt recovery processes could be improved
- A low annual infrastructure renewal rate (IRR) of 51.77% with a 4 year average of 87.84%. Of particular concern are the renewal ratios for Council's Water and Sewer assets, which had an IRR in 2010/11 of 27% and 14% respectively (2% and 15% respectively in 2009/10). Council should aim to achieve a rolling average of around 100% for all asset categories
- A shortfall in expenditure for the maintenance of infrastructure assets in 2010/11 of \$7.3 million. Over the past 4 years Council has short funded estimated required asset maintenance to a total of \$29.2 million
- The condition of Council's infrastructure assets as reported in Special Schedule 7 (unaudited)
- Internally restricted funds for infrastructure renewal and replacement is considered to be insufficient given Council's low infrastructure renewal rate.

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shortfall in annual maintenance, poor condition of infrastructure assets and the estimated cost to bring assets to a satisfactory standard.

- I note that while Council is in Group 3 for the implementation of the Integrated Planning and Reporting (IP&R) framework, Council has already implemented IP&R.

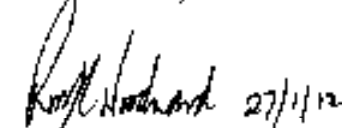
I also note that Council's Asset Management Strategy highlights the need for Council to better manage its assets, especially with regard to funding asset maintenance and renewal, and outlines strategies to address these issues. However, Council's ability to remain financially sustainable in the long term is of concern given the forecast financial results in Council's Long Term Financial Plan.

Therefore, I would appreciate receiving your advice on the strategies and mechanisms that Council has put in place, or intends to put in place, to improve Council's longer term financial position.

Additionally, Council is requested to provide a copy of the auditor's management letter, relevant to the 2010/11 annual financial statements.

I would appreciate receiving your response by Friday, 24 February 2012. If you wish to discuss any matter raised in this letter, please contact Mrs Marilyn McAuliffe, Senior Performance Analyst, on telephone (02) 4428 4141.

Yours sincerely



Ross Woodward
Chief Executive, Local Government
A Division of the Department of Premier and Cabinet



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24 February 2012

Mr Ross Woodward
Chief Executive, Local Government
A Division of the Department of Premier and Cabinet
Locked Bag 3015
Nowra NSW 2541

Dear Mr Woodward,

REVIEW OF WYONG SHIRE COUNCIL'S 2010/11 FINANCIAL STATEMENTS

With reference to your letter of 27 January 2012 regarding the recent review of Council's 2010/11 Financial Statements by your Division. Below is Council's response.

Overview

The concerns raised in your letter were recognised by Wyong Shire Council before the 2010-11 Management Plan was adopted. On my appointment in May 2010 I initiated an urgent revision of the draft 2010-2011 Management Plan and targeted a material financial improvement for 2010-11 year reducing the forecast operating deficit from (\$30m) to (\$17.4m) in the adopted 2010-11 Management Plan.

In addition during the 2010-2011 financial year a comprehensive analysis of service delivery was undertaken which led to Wyong Shire Council's (WSC) business planning processes taking up preparation of a Strategic Business Plan (for 2011-12 and beyond) in accordance with the new legislation for Integrated Planning & Reporting despite WSC being a Group 3 Council.

Positive strategies were immediately established to:-

- Develop new revenue streams;
- Eliminate the operational deficit within four years;
- Ensure tight management controls over expenditure;
- Align services with the Community Strategic Plan outcomes;
- Ensure detailed service planning was the driver of budget outcomes and asset expenditure;
- Ensure that assets aligned with services;
- Ensure prioritisation of capital expenditure aligned with Strategic Objectives and produced optimal outcomes for the investments made;
- Maximise cost savings available from Shared Services – especially with Gosford City Council; and

- Explore the establishment of a rating base revenue that aligns with the efficient cost of services.

The new Strategic Business Plan for 2011-17 was established based on an organisation-wide Service Delivery Review which pursued major cost-structure improvements and set up a pathway to fiscal sustainability by 2015. A copy of the Service Delivery Review Report is attached as Annexure 1.

The 2009/10 (\$30.0m) deficit was reduced to (\$17.4m) 2010/11 and a target of (\$14.7m) 2011-17 as the first steps in a staged improvement to "break-even operational surplus" by the end of 2014-15 and is on target as reported to Council in the 2011-17 Q2 Annual Plan and Budget Review Report. (See Annexure 2)

As demonstrated in the 2011-12 Q2 Annual Plan and Budget Review Report, progress during 2011-12 is well on-track for being under target and forecasting for the next two years similarly reflects the intended recovery pathway of having an operational deficit less than (\$10.0m) in 2012-13 and (<\$5.0m) for 2013-14. In line with our sustainable financial strategy Wyong Shire Council will move into an operational surplus in the financial year 2014-15.

Following on from the Service Delivery Review and with other efficiency improvements Wyong Shire Council will have produced a recurrent \$20m turn around on Council's 2012-13 Profit and Loss Statement. Council will pursue three further initiatives to assist in achieving our sustainable financial position. These are:-

- Gaining a permanent increase in rating revenue to a level that aligns with the true cost of efficient service delivery at a standard comparable with New South Wales benchmarks;
- Realising the substantial operating efficiencies to be gained from establishing shared services between Gosford and Wyong to capture long term economies of scale, and
- Developing alternative income streams through the enhancement of Council's property holdings

Background

Deficits in recent financial years were the cumulative result of a number of factors including:

- A growing population within Wyong Shire. The majority of this growth on the Central Coast is occurring in green-field development areas of the Wyong Shire. This growth has brought with it a need to build and maintain an increasing asset infrastructure portfolio. As you would be aware, under the Sydney Metropolitan Strategy Wyong is targeted with an extra 70,000 residents over the next 20 years.
- Increased demand and expectations for higher quality community services from our residents.
- Costs imported from other levels of government without appropriate financial compensation (e.g. emergency services, weed management, collecting waste tyres etc). Council is now paying various State Government Departments and Agencies in excess of \$24m per annum.
- Increasing needs for the maintenance and replacement of assets which has created significant tension between service levels and rising costs of delivery. While it is noted Council has a capital backlog of \$193m (2010-11). This will be reduced to

\$163m in 2011-12 and \$111m in 2012-13) by Council investing a significant component of its capital expenditure into its existing infrastructure.

- The rate capping system in NSW, whereby Local Government's ability to increase rates has failed to keep pace with the cost of doing business. Rate pegging has generally been consistent with CPI increases whereas the major part of Council's expenditure is civil construction where significant imported costs impose expenditure levels in excess on the CPI.

The Service Delivery Review undertaken in July - Sept 2010 resulted in an organisational restructure, to improve service delivery to the community and to establish financial sustainability for Wyong Shire Council in the long term.

The Review made 77 recommendations and identified 21 additional savings – all of which were adopted by Council and resulted in:

- Immediate savings from reduced costs \$2.6 million annually.
- Increased Revenue \$1.0 million annually.
- Production/Productivity increases \$4.0 million annually.

The majority of the 77 actions and savings were completed by June 2011 and those that remained, plus many more, were incorporated into the 2011-12 Strategic Plan, which has allowed Council to derive the full financial benefits in a practical, staged manner.

The Service Delivery Review provided the impetus to begin a change in organisational culture that is vital to future fiscal sustainability. Wyong Shire Council needed to find new ways of service delivery that maintained service levels but at lower cost.

The draft 2012-13 Annual Plan/ 4 year Delivery Plan has had a strategic sign off by Council on the weekend of 18/19 February 2012. (Note: This will be subject to the statutory public exhibition and adoption in May 2012. This draft budget continues the positive financial trend by forecasting a (\$10m) operating deficit).

Detailed below is Wyong Shire Council's response to the specific concerns raised by the Division of Local Government in the correspondence dated 27 January 2012.

1. Consolidated net operating result before capital grants and contributions has been in deficit for the last 5 years, together with ongoing forecast deficit results in Council's Long Term financial Plan.

In June 2010 Council adopted its first Long Term Financial Strategy (LTFS) based on known data before the Service Delivery Review began and before the new financial direction was established.

The LTFS was subsequently amended (2011-12) and formulated to provide a robust pathway to long-term financial sustainability to ensure that Wyong Shire Council:

- Has an ongoing ability for the next five years to fund its current level and/or chosen level of services;
- Can maintain its assets at optimal condition given the service levels required by community;
- Has the ability to meet the financial impact of any likely significant unplanned event (eg. major flooding); and

- Meet legislative requirements.

Council's new LTFS (see Annexure 3) provides for a sustainable pathway toward operating "break-even" point by 2015 by establishing target Operating results of:

- 2011/12 Deficit (<\$5) million. On track, December 2011 budget forecast full year deficit of \$14.7 million.
- 2012/13 Deficit (<\$10) million. On track, draft budget \$10.0 million deficit endorsed at the Council Strategic Planning Workshop held 10/11 February 2012. Continued improvements in 2012/13 budget process including increased detail in budgets at a service / product level and an increased focus on Fees & Charges.
- 2013/14 Deficit (<\$5) million. Service levels to be reviewed and assessed in detail in consultation with the community in 2012/13.
- 2014/15 Break-even/operating surplus achieved via new revenue streams.

To achieve these targets Council has in place a number of strategies including:

- Continuous improvement in financial position and performance. There is a strong, ongoing focus on tight fiscal control over expenditure through strict budget management, monthly budget reporting and reviews, and management control at the point of expenditure commitment.
- Establishment of a Project Assessment Team to oversee the strategic alignment and value of major activity and approve project scopes prior to projects commencing.
- Application of intense controls and focus on labour costs. In 2010/11 employee costs were 33% of recurrent operating expenditure. This expenditure area has been closely managed from June 2010 when the staff FTE peaked at over 1,200 to a FTE capped in 2011/12 at 1,095, and now reduced in 2012/13 to 1,065. This has been done with no material reduction of service to the community or any industrial disputes.
- Establishment of the strategic target of an operating surplus from 2014-15 in the Long Term Financial Strategy;
- Ensuring an equitable rating structure;
- Establish "best value" service delivery that maximises the affordable return to the community;
- Where practical, to achieve full cost recovery for the provision of services;
- Increase funding for asset maintenance and renewal;
- Reviewing its asset portfolio to ensure the assets provide an appropriate benefit to the community and align with Council's strategic direction, for the purpose of considering a range of asset rationalisation options. A review of land categorisation has been completed and a review of Council's asset portfolio will be undertaken in conjunction with community engagement activities in 2012;
- Manage Council's investments and resources in a prudent manner, with a focus on revenue opportunities and increased return on investments; and
- Manage debt to maximise community value.

Council has also commenced a Community Engagement & Consultation program to determine the community's priorities and service levels with a view to possibly applying for a Special Rate Variation in 2013/14.

2. Deficit net operating result before and after income for capital purposes in the Sewerage Fund over the past 4 years, and Deficit net operating result before capital items in the Water Fund for the last 4 years.

The drought of 2001-2007 placed huge pressure on Council's water supply, which at its lowest point was 12% of total capacity.

Council has, over the years since 2001 had strict water consumption restrictions in place which has had a two fold effect on Council's financial position :-

- Decreased water usage = dramatically decreased revenue and
- Increased costs for alternative water supplies (e.g. purchasing water from Hunter Water Authority).

Establishing water security was a priority and included building a larger pipeline link between Wyong and the Hunter Water Authority and Wyong and Gosford Water Supply Authorities building the Mardi-Mangrove Pipeline project, which was a \$120 million project partially funded by the Federal Government. This pipeline along with a further \$60m upgrade of Mardi Dam and pumping station was completed in 2011.

The Division will be aware that Wyong Shire Council's water and sewerage charges are regulated by the Independent Pricing and Regulatory Tribunal (IPART). Currently prices are set in such a way that capital costs such as new pipelines have to be funded from borrowings to ensure intergenerational equity.

These large capital projects have caused increased interest on borrowings in recent years while revenue from water usage decreased significantly due to the drought. The effect on the operating result in the water and sewer funds are apparent.

The financial sustainability strategies (detailed above) when applied to the LTFS for Water Supply sees a return to surplus in 2013/14, and Sewerage will return to surplus in 2016/17. Council is presently preparing its pricing submission for new charges to reflect the true value of supplying water and waste water services from 1 July 2013.

Central Coast Water Corporation

In 2011 Council obtained a 50% shareholding interest in the Central Coast Water Corporation. The Central Coast Water Corporation Amendment Act was assented in February 2011 to provide for the creation of an independent corporation jointly owned by Gosford City and Wyong Shire Councils to provide water and sewerage services to the residents of the Central Coast.

The formation of the Central Coast Water Corporation is progressing and it is planned to be fully operational on 1 July 2014 with a renewed focus on the Water & Sewer business on a commercial basis. While the business model for the Central Coast Water Corporation has not yet been determined its principle objective is to be a successful business that reduces the cost to the Central Coast communities while guaranteeing the supply of a quality water and sewer service. Attached as Annexure 4 is the Memorandum of Understanding signed with the Minister of Water, the Central Coast Water Corporation Amendment Act and the Central Coast Water Corporation Constitution.

3. A high percentage of outstanding rates and annual charges, indicating that Council's debt recovery processes could be improved.

Wyong Shire Council agrees and has taken action that changed the manner in which debt collection is undertaken. Further steps will include contracting out the aspects of debt collection that are not core business in terms of Council's customer service quality.

However, debt collection success is intimately linked with the socio-economic characteristics of a community and its ability to pay.

Wyong Shire has historically been above the industry benchmark of 5% by 1.5% - 2.5% and whilst this is unacceptable to those who pay their rates on time, it is reflected by demographics such as:-

- Wyong has had one of the lowest labour force participation rates of all regions in NSW;
- The Shire's unemployment rate is historically been 2-5% above the NSW and Australian unemployment rates 2006 census quotes unemployment @ 8.2%;
- High Youth Unemployment -16%;
- Very high population of people over 65 - 18.3%;
- Household Income level (average) the lowest of comparable Council @ 25% less than the State average; and
- Conversely Wyong residents pay 30% more of their household income on mortgage repayments.

*Source - 2006 Census

Wyong Shire Council continues to target repayment levels to achieve the 5% benchmark. Wyong Shire Council has taken the initiative of appointing a credit management specialist in July 2011 to implement improved credit management debt recoveries and to develop other Council staff with the appropriate skills.

The debt recovery team continues to focus on achieving arrangements to pay where payments in full are not financially achievable for the rate payer and on legal action where arrangements are not made or where they are not adhered to. Council is also looking to out-source targeted debt recovery cases where it is advantageous from 1 July 2012.

4. **A low annual infrastructure renewal rate (IRR) of 51.77% with a 4 year average of 87.87%. Of particular concern are the renewal ratios for Council's Water and Sewer assets, which had an IRR in 2010/11 of 27% and 14% respectively (2% and 15% respectively in 2009/10). Council should aim to achieve a rolling average of around 100% for all asset categories.**

Renewal ratios have been dominated by the need to put in place new assets that deal with the protection needed by the community against future water supply difficulties - e.g. \$120m for the Mardi-Mangrove pipeline and \$60m for the Mardi Dam and pumping station upgrade.

With that hurdle completed in 2011, Council's 2011-2015 Strategic Plan Council appropriated increased investment in renewal works as exemplified by its increased investment in road renewal works by \$5.0m a year up to \$11.6m in 2011/12.

Wyong Shire Council will spend \$28.6m in total on asset renewal work during 2012-12, which is a significant increase on \$16.4m in 2010/11.

Council's draft 2012-13 budget includes \$29.1m allocated to asset renewals and \$19.7m to upgrade works representing approximately 75% of the proposed total capital expenditure budget. Based on Council's draft 2012-13 budget it is estimated that

Council's ARR rate in 2012-13 will be 85%, which is a significant improvement from previous years. Council will continue to work towards the target of 100%.

It is of note to emphasise that Council does not control price setting in water and sewage and given that IPART did not allow Council to vary its water and sewage prices to meet the unforeseen drought expenses, the funds allocated to infrastructure renewals were reduced.

This issue will be addressed in future IPART price determinations, where increased levels of infrastructure renewal will be required and in the longer term will continue to be addressed by the Central Coast Water Corporation which will become a Water Supply Authority for the Central Coast in July 2014.

5. A shortfall in expenditure for the maintenance of infrastructure assets in 2010/11 of \$7.3 million. Over the past 4 years Council has short funded estimated required asset maintenance to a total of \$29.2 million.

The 2010/11 financial year saw a significant change in culture at Council with a firm commitment to achieve a recurrent break-even level of expenditure by 2014/15, whilst committing to addressing the underlying gaps in asset renewals.

A key challenge for Council is to determine how best to sustainably balance investment in new asset intensive services against the need to maintain existing services at levels of cost and quality which are acceptable to the community.

Wyong Shire Council has, over the last two years, moved a long way forward in Asset Management and made the appropriate resource investment for ensuring optimal asset investment for the future that support Council's intended service contribution to the Community.

The Asset Management Strategy focuses on the timely renewal or upgrade of existing assets rather than creating new assets unless that approach represents the best business case. (See Annexure 5).

Council will increase its investment in road renewal works by \$5.0m a year to \$11.6m in 2011/12 and spend \$28.6m on total asset renewal work during 2011/12, and \$29.1m in 2012/13 - a major increase on the \$16.4m spend in 2010/11.

Council's draft budget for 2012/13 involves a significant increase in maintenance expenditure. It now plans to spend 1.53% of the current replacement value of its assets on maintenance work - a sound target that will soon overcome its maintenance funding shortfall. Further, as the increased renewal expenditure improves the condition of its assets, the associated required maintenance expenditure is expected to fall. Council's asset maintenance backlog in 2010-11 was \$193m but will reduce to \$163m in 2011-12 and be further reduced to \$113m in 2012-13 as a result of increased funding by Council.

6. The condition of Council's infrastructure assets as reported in Special Schedule 7 (unaudited).

The principle item in the Schedule is Council's self-assessment of roads as compared with the SMEC benchmarks. In the past Wyong Shire Council has adopted a conscious position of maintaining its roads at a level that has been a manageable spend for the community.

This approach has resulted in a basic level of service which, when compared to the SMEC standards, produces the major variation as appears in Special Schedule #7. Council has now opted for a higher level of service in roads, it will be able to soon report an improved condition of this key component of its asset portfolio.

Council long-term Asset Management Strategy specifies objectives and outcomes for asset management over the next ten years.

Asset Management Plans contain specific detail on individual assets such as condition, value, maintenance cost, service capacity, renewal needs, life expectation and strategic service expectations.

The desired outcomes of the Asset Management Strategy are as follows.

- Ensuring the right assets are built;
- Ensuring assets are managed well through sound planning and integration with the Community Strategic Plan and LTFS;
- Ensuring a balance between Council operations, new assets and existing assets;
- Ensuring future budgets, The Annual plan and the 4 year Delivery Plan reflect the asset requirements; and
- Ensuring assets are effectively maintained through 'whole of life' costing

It is envisaged that Council will also be applying for assistance under the recently announced Local Infrastructure Renewal Scheme (LIRS) to assist in the funding of Council's infrastructure backlog.

7. Internally restricted funds for infrastructure renewal and replacement is considered to be insufficient given Council's low infrastructure renewal rate, shortfall in annual maintenance, poor condition of infrastructure assets and the estimated cost to bring assets to a satisfactory standard.

As previously stated, Council has conducted a Service Delivery Review and implemented a number of initiatives to improve its financial position to break even in 2014/15. The various initiatives will enable Council to increase internally restricted funds to asset renewal in future years.

Council will need to balance the need to deliver current services and programs against the need to set aside funds for future renewal and replacement works. One downside of restricted funds is that for every dollar held in reserve for the future, it is money that is not delivering current services and programs or renewing assets.

While Council may not have specific reserves for Infrastructure Renewal and Replacement, it should be noted that at the end of 2010/11 Council held \$39.6 million in internally restricted reserves, of which \$17 million was trading capital (funds set aside for unforeseen future costs) and \$14.8m in unrestricted cash. It should be highlighted that Council's investment portfolio is mainly held in short/medium term deposits and as such does not have the high risk profile or liquidity problems of many Councils in NSW.

8. Request for a copy of Council's Auditor's Management Letter relevant to the 2010/11 Annual Financial Statements.

Council's external Auditors, in their management letter (attached as Annexure 6), have noted the improved financial position on a number of fronts, especially the Operating Result. They further concluded that Council's financial position is sound and stable.

Conclusion

The progress made since 2010 toward restoring financial performance is both dramatic and sustainable. A key element has been a remarkable build-up in the working alliance between Gosford and Wyong Councils. The now extensive shared services range of activities delivers considerable benefits to both Councils. (see Annexure 7) Wyong Council is dedicated to increasing and deepening the working relationships with other Councils.


We are confident the management steps taken since the beginning of the 2010-2011 year are a robust and prudent pathway to restoring financial viability while still delivering on acceptable levels of service to the Community of Wyong. Council has also worked hard to develop and provide security to its workforce. This is evidenced by the excellent industrial relations record over the last 2 years while implementing this change agenda. It should be noted Council is in the second year of a five year plan and the progress to date as detailed above in my opinion is exceptional.

The business planning rigour introduced for the current year combined with tight management controls, has already achieved much needed progress in the daily management decision-making that is critical to Wyong Shire Council's long-term success.

Council believes that Wyong Shire's future is bright as a growing community that is part of the Central Coast region and we will be looking forward to creating further efficiencies and enhanced service delivery to our community with our neighbouring council, Gosford City.

I would like to acknowledge the efforts of the Councillors and Staff at Wyong Shire Council for the positive outcomes to date with regard to achieving Council's improved financial performance and delivery of best value services to our community. It really has been a team effort, if you have any questions please call me on 4350 5200

Yours sincerely



Michael Whittaker
General Manager

Att 5 003145646.



New South Wales
Treasury Corporation

Wyong Shire Council

Financial Assessment and Benchmarking Report

12 September 2012

Prepared by NSW Treasury Corporation as part of the Local Infrastructure Renewal Scheme



New South Wales
Treasury Corporation

Disclaimer

This report has been prepared by New South Wales Treasury Corporation (TCorp) in accordance with the appointment of TCorp by the Division of Local Government (DLG) as detailed in TCorp's letters of 22 December 2011 and 28 May 2012. The report has been prepared as part of the Local Infrastructure Renewal Scheme (LIRS) announced by the NSW Government.

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Index

Section 1	Executive Summary	4
Section 2	Introduction	6
2.1:	Purpose of Report	6
2.2:	Scope and Methodology	6
2.3:	Overview of the Local Government Area	8
2.4:	LIRS Application	9
Section 3	Review of Financial Performance and Position	10
3.1:	Revenue	10
3.2:	Expenses	11
3.3:	Operating Results	12
3.4:	Financial Management Indicators	13
3.5:	Statement of Cashflows	14
3.6:	Capital Expenditure	15
3.7:	Specific Risks to Council	17
Section 4	Review of Financial Forecasts	18
4.1:	Operating Results	18
4.2:	Financial Management Indicators	19
4.3:	Capital Expenditure	21
4.4:	Financial Model Assumption Review	23
4.5:	Borrowing Capacity	24
Section 5	Benchmarking and Comparisons with Other Councils	25
Section 6	Conclusion and Recommendations	25
Appendix A	Historical Financial Information Tables	26
Appendix B	Glossary	29