

# **ADDITIONAL ITEM**

24 October 2012  
To the Ordinary Council Meeting

Director's Report  
Corporate Services Department

## **5.5 Service Standards Review - Results of Stage 1 Community Consultation**

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TRIM REFERENCE: F2012/00388 - D03033513

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### **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 \$30m 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 those 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 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 not 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 Me' spectrum	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"> <li>• Fact sheets</li> <li>• Paid advertising-Radio and print media</li> <li>• Mayor's column</li> <li>• Emails to community groups and associations</li> <li>• 1300 postcards handed out at railway stations, libraries, child care centres and events.</li> <li>• 50 posters at community facilities and Council</li> <li>• Council's web-site and social media</li> <li>• Council staff word of mouth</li> </ul>
Connect	To obtain public feedback on analysis, alternatives and/or decisions.	<ul style="list-style-type: none"> <li>• Reputation survey 2010, 500 participants</li> <li>• Omnibus surveys 2010, 153 participants</li> <li>• Omnibus surveys 2012, 415 participants</li> <li>• Online survey 2012, 112 participants</li> </ul>
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"> <li>• 3 community workshops, 37 participants</li> <li>• 1 staff who are residents workshop, 35 participants</li> </ul>

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)

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- things Council may have missed, ways to improve the 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"

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

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.

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 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.

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

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- 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 Scenarios 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 Councillor 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 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 SRV 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 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.*