Independent Pricing and Regulatory Tribunal

Special Variation Application Form – Part B

For 2017-18

Issued December 2016

Insert Name of Council: **Mid-Coast Council**
Date Submitted to IPART: 31 May 2017
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Contents

1 Introduction

IPART will assess each application against the criteria set out in the Office of Local Government's (OLG) *Guidelines for the preparation of an application for a special variation to general income for 2017/2018* (the Guidelines). Councils should refer to these Guidelines before completing this application form.

Each council must complete this Part B application form when applying for a special variation to general income either under section 508(2) or section 508A of the *Local Government Act 1993* (NSW).

In addition, councils must complete the Part B form with the Part A (spreadsheet) form for both section 508(2) or section 508A applications. The Guidelines also require the council to have resolved to apply for a special variation. You must attach a copy of the council's resolution. IPART's assessment of the application cannot commence without it.

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

As outlined in the Guidelines, new councils created in 2016, or councils whose merger proposals are pending due to legal proceedings, will be ineligible for special variations for the 2017-18 rating year.

1.1 Completing the application form

This form is structured to provide guidance on the information we consider is necessary for us to assess a special variation application. To complete the form, the council will need to respond to questions and insert text in the boxed area following each section or sub-section.

The amount of information that a council provides will be a matter of judgement for the council, but it should be sufficient for us to make an evidence-based assessment of the application. Generally, the extent of the evidence should reflect the size of the variation sought. More complex applications or requests for a high cumulative percentage increase should be supported by stronger, more extensive evidence.

Councils may submit additional supporting documents as attachments to the application (refer to section 8). These attachments should be clearly cross-referenced in Part B. We prefer to receive relevant extracts rather than complete publications, unless the complete publication is relevant to the criteria. If you provide complete documents when only an extract is relevant, we may ask you to resubmit the extract only. (You should provide details of how we can access the complete publication should this be necessary.)

We publish videos and fact sheets on how IPART assesses special variations and on the nature of community engagement for special variation applications. These will assist in preparing the application. The latest videos and fact sheets on these topics are available on IPART's website.

We may ask for additional information to assist us in making our assessment. If this is necessary, we will contact the nominated council officer.

This application form consists of:

- Section 2 – Preliminaries
- Section 3 – Assessment criterion 1
- Section 4 – Assessment criterion 2
- Section 5 – Assessment criterion 3
- Section 6 – Assessment criterion 4
- Section 7 – Assessment criterion 5
- Section 8 – List of attachments
- Section 9 – Certification.

1.2 Notification and submission of the special variation application

Notification of intention to apply

Councils intending to submit an application under either section 508(2) or section 508A should have notified us of their intention to apply, via the Council Portal, by Friday 16 December 2016.

Any councils that did not notify but intend to apply for a special variation for 2017-18 should contact us as soon as possible.

Online submission of applications

All councils intending to apply for a minimum rate increase must use the Council Portal on IPART's website to register as an applicant council and to submit an application.

You are required to submit the application, via the Council Portal, by **Monday 13 February 2017.**

The User Guide for the Portal will assist you with the registration and online submission process. If you experience difficulties please contact:

- Arsh Suri - Arsh_Suri@ipart.nsw.gov.au or 02 9113 7730
- Himali Ardestani - Himali_Ardestani@ipart.nsw.gov.au or 02 9113 7710.

File size limits apply on the Council Portal to each part of the application. For this Part B application form the limit is 10MB. The limit for supporting documents is 50MB for public documents and 50MB for confidential documents. These file limits should be sufficient for your application. Please contact us if they are not.

We will post all applications (excluding confidential content) on the IPART website. Confidential content may include part of a document that discloses the personal identity or other personal information pertaining to a member of the public or whole documents such as a council working document and/or a document that includes commercial-in-confidence content. Councils should ensure that documents provided to IPART are redacted so that they do not expose confidential content.

Councils should also post their application on their own website for the community to access.

Hardcopy of application

We ask that councils also submit their application to us in hard copy (with a table of contents and appropriate cross referencing to supporting documents) to the following address by **Monday 13 February 2017**:

Local Government Team
The Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240
or
Level 15, 2-24 Rawson Place, Sydney NSW 2000.

2 Preliminaries

2.1 Focus on Integrated Planning and Reporting

Councils must identify the need for a proposed special variation to their General Fund's rates revenue as part of their Integrated Planning and Reporting (IP&R) process. The IP&R documents will need to be publicly exhibited and adopted by the council prior to it submitting its application to us. Also refer to section 6 for a more detailed explanation.

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

2.2 Key purpose of special variation

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

Maintain existing services	X
Enhance financial sustainability	X
Environmental services or works	X
Infrastructure maintenance / renewal	X
Reduce infrastructure backlogs	X
New infrastructure investment	☐
Other (specify)	☐

You should summarise below the key aspects of the council's application, including the purpose and the steps undertaken in reaching a decision to make an application.

MidCoast Council was formed by the merger of Great Lakes, Greater Taree City and Gloucester Shire Councils on 12th May 2016. Prior to the merger all three former Councils highlighted the need for special rate variations through the Fit for the Future process to address existing asset renewal and backlog issues as well as financial sustainability.

Both Great Lakes and Greater Taree City Councils had applied to the IPART for a special rate variation for 2016/17. Due to the timing of the announcement of the amalgamation, a formal determination on these applications was not made. At the same time the former Gloucester Shire Council had two years remaining (2016/17 and 2017/18) of an approved 3 year x 13% special rate variation and had flagged their intention to their community to seek a further SV once the current approval expired.

As it was well documented that the three former Councils had a need for special rate variations to address existing asset renewal and backlog issues as well as financial sustainability issues, when MCC was formed it was obvious that a critical initial priority would be the consolidation of the asset information and financial position to determine a sustainable future for our community.

Assets

To better understand this situation, an external review of Council's asset position found a combined asset backlog of $180M, and underfunding of asset renewal works for roads and bridges of $5M annually.

The external review (conducted by Morrison Low) recommended a high level asset strategy targeting sealed roads and bridges. That strategy is to:

- Continue to maintain assets across MCC in their current condition
- Ensure that condition 3 roads do not deteriorate into condition 4 & 5
- Prioritise the renewal of roads in condition 4 & 5 based on risk and economic benefit considerations
- Pursue additional grant funding for regional roads and major transport routes
- Seek a SV to fund the annual $5M gap in renewal program funding for the sealed road and bridge network

(Note: condition ratings are based on a 1-5 scale with 1 being *very good* and 5 being *very poor*)

To respond to the community's demand for action, a $30M Roadcare Program has been developed (and is currently being delivered). This is allowing for urgent renewal works to be undertaken. This Program is being funded by a combination of the NSW Government's Stronger Communities - Major Projects Fund ($14M), prior year Council savings ($4M) and identified ongoing savings and efficiencies arising from the merger ($12M over 3 years).

This Program is in keeping with the strategy outlined above and provides the community with immediate benefits from the merger. However this does not address the annual $5M shortfall in funds required to meet asset renewal requirements. As long as this funding gap remains, the condition of assets will decline and the backlog will grow. This outcome is unacceptable to Council and our community.

Council's strategy to address this ongoing asset funding shortfall is to seek a special rate variation. This asset strategy and specific funding proposal was discussed with the community in October - November 2016 during a community engagement program across the MidCoast area. The funding proposal presented is based on a rate increase of 5% (including the rate peg), each year over a 4 year period.

Environment

Both Great Lakes and Greater Taree City Councils had existing environmental levies. The Great Lakes levy was approved for 2013/2014 at a level of 6% of general income for a period of 7 years. The Greater Taree City levy was approved for 2014/2015 at a level of 5% of general income for a period of 5 years. Gloucester Shire Council did not have an environmental levy at the time of the merger.

This application seeks to replace these levies with a single Environmental Levy that would apply across the whole MidCoast Council area. It is proposed that this levy would represent 6% of general income and would be a permanent addition to Council's general income.

If this application is successful Council understands that the existing approvals would be cancelled and a new approval issued.

Environmental management is highly valued by the MidCoast community and is a core community priority. The Mid Coast Council area covers an entire catchment area and coordinated environmental programs are critical to protect and enhance the local environment. Council also partners with Federal and State Government on key government initiatives and the environmental levy is vital to these partnerships.

The proposal to extend the environmental levy to the Gloucester region will allow a coordinated approach to the protection and restoration of the natural environment across the entire catchment area.

The environment is a common theme throughout the Community Strategic Plans from each of the former councils and as MidCoast Council, we know that this theme continues for our region. During recent community engagement regarding the MCC identity and branding, our natural environment was a consistent and strong theme. The values and attributes identified by our residents included:

- *From the mountains to our beaches we have an exceptional, expansive, tranquil and beautiful environment. Experience our rich natural treasures, stunning landscapes and pristine waterways.*

- *A natural connection - we are defined by our connection to nature and our connection to each other. Where the leaves touch the water.*

An environmental levy for the MidCoast region will allow focus initially on the following areas and allow for an 'all of catchment' approach to this work:

1 Estuary, catchment and water quality improvement and planning
2 Biodiversity
3 Sustainability and environmental performance

4 Priority weed management

5 Community engagement, partnerships and incentives to improve catchment condition

6 Natural reserve and asset management

7 Dredging and foreshore improvements

The types of projects that will be delivered include:

- Priority aquatic and riparian weed control on the upper Manning river system
- Bush regeneration and pest control in Council managed natural areas
- Community engagement to develop partnerships for supporting activities on private land to improve catchment health
- Fish barrier removal, erosion control and riverbank management.

Summary

The cumulative increase in rates of this proposal is 28.5% over 4 years. The proposed increases for each year are set out in the table below. It is proposed that these increases will be permanent addition to Council's general income.

2017/18	11% (2.5% Infrastructure Renewal, 1.5% Actual rate peg, 1.0% - maintenance of existing service levels (due to budget preparation on assumed rate peg of 2.5%),and 6.0% Environmental purposes)
2018/19	5% Infrastructure Renewal and Financial Sustainability (inclusive of assumed 2.5% rate peg)
2019/20	5% Infrastructure Renewal and Financial Sustainability (inclusive of assumed 2.5% rate peg)
2020/21	5% Infrastructure Renewal and Financial Sustainability (inclusive of assumed 2.5% rate peg)

The actual impact on ratepayers in each region varies slightly depending on the removal of existing variations and the addition of the new variation. The impact on each region is outlined throughout this application.

MCC also commissioned a statistically valid community survey in November 2016. Survey results indicate that 76% support a special rate variation at the proposed level or slightly lower. This is a noteworthy result for a newly merged Council and clearly demonstrates the community's understanding of Council's position.

Unique Merged Council Position – IP&R Requirements

At the time of Council's community engagement in October-November 2016 the NSW Government's position was that merged councils would maintain the pre-merger rate paths of the former councils (excluding increases due to the annual rate peg amount).

This position was formalised on 29 March 2017 in the Local Government Amendment (Rates - Merged Council Areas) Bill 2017 (Attachment 13). The Bill amended the Local Government Act 1993 and the following specific clauses which provide special dispensation for MidCoast Council are now included in section 218CB of the Act:

(8) Nothing in this section prevents Mid-Coast Council from making an application under section 508A during the relevant period. And

(11) Any prohibition that expressly prevents any new council from making an application under section 508A that is contained in the guidelines made under that section does not apply to Mid-Coast Council.

In addition, on 4 April 2017 the Office of Local Government published an Addendum Guidelines (Attachment 14) to the Guidelines for the Preparation of an Application for a Special Variation to General Income for 2017/18. This Addendum provided additional information on the dispensation for MidCoast Council in relation to an application for a special rate variation for 2017/18.

In order to meet the requirements of the Guidelines and the Integrated Planning & Reporting legislation, Council was required to exhibit an addendum to its current Delivery Program/Operational Plan to include the specific SV proposal. The addendum was placed on public exhibition for a period of 28 days. As a merged Council MidCoast was required to implement the 2016/17 Operational Plans of the pre-merged Councils and to operate under the former Delivery Programs. As a result Mid-Coast Council was operating three separate Delivery Programs and Operational Plans brought together through an Introductory Operational Plan Section applicable to the entire Mid Coast Council region. This Introductory Section included the following statement from the Interim General Manager:

MidCoast Council was formed by proclamation on 12th May 2016 and comprises the former Councils of Gloucester Shire, Greater Taree City and Great Lakes. All Councils had prepared their Draft Operational Plans for 2016/17 at the time of the proclamation. For the 2016/17 year the Operational Plan of MidCoast Council will be a composite of the draft operational plans of the three former Councils. The plans represent the services and activities that will be delivered by MidCoast Council during 2016-2017. Council will then undertake consultation with the MidCoast community on a combined Operational Plan for 2017-2018 and future years.

As Interim General Manager I am committed to setting the new Council up for success and to ensure service continuity during the transition period. The NSW Government has set key result areas and performance indicators for the new Council and it is our intention to meet or exceed these wherever possible to benefit our community.

I look forward to working with you during the next 12 months and beyond as we strive to create a strong Council which listens to and is engaged with the local community.

In addition the following statement was included in the Operational Plan 2016/17 Introduction:

Rates (including SV determination and future direction)

The NSW Government proclamation requires MCC to apply the rating structure, rating categories and sub-categories that applied in each former Council area for 2015-16 in 2016-17.

For the former Gloucester Shire Council this will include the continuation of a previously determined special rate variation.

The rates for the former Greater Taree City and Great Lakes Councils will be based on the rate peg limit set by the Independent Pricing and Regulatory Tribunal (IPART) of 1.8%. Both the former Greater Taree City and Great Lakes Councils had applied to IPART in February 2016 for special rate variations. IPART has since advised that:

…on 11 May 2016, IPART made decisions on these applications but had not yet issued the instruments giving effect to the decisions to the applicant councils. On 12 May 2016, each of the relevant councils was dissolved under an amalgamation proclamation issued by the Governor. As a consequence, IPART can no longer implement the decisions made on 11 May. Hence, no final decisions and instruments can be issued by IPART on these three former councils' applications.

MCC will now consider applying for a special rate variation in accordance with NSW Government policy and advice that may be up to or equivalent to, the amounts applied for by the previous Councils. The former Taree City Council applied for a cumulative % rise over 6 years of 49.2% while the former Great Lakes Council applied for a cumulative % rise over 4 years of 20.7% (both figures are inclusive of the rate peg amount).

Priority will be placed on consolidating the asset and financial information from the former three Councils, to determine the overall position of MCC. The exact special rate proposed will be determined once this information is available, and following consultation with the NSW Government.

Addendum to 2016/17 Operational Plan

In line with the above Council continued its engagement with its community and in June 2016 advised of its intention to review asset and financial information and consider applying for a special rate variation. Once results of these reviews were known Council continued its conversation with the community in October and November 2016 on the specifics of the special rate variation which are reflected in this application.

In order to comply with Integrated Planning and Reporting requirements of the Office of Local Government SV Guidelines an Addendum to the 2016/17 Delivery Program and Operational Plan containing details of the SV proposal was prepared by Council, exhibited for 28 days and adopted by Council on 31st May 2017.

2.3 Capital expenditure review

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

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

Does the proposed special variation require council to do a capital expenditure review in accordance with OLG Circular to Councils, Circular No 10-34 dated 20 December 2010	Yes ☐	No **X**
If *Yes*, has a review been done and submitted to OLG?	Yes ☐	No ☐

3 Assessment Criterion 1: Need for the variation

Criterion 1 in the OLG Guidelines is:

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

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

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

Evidence could also include the assessment of the council's financial sustainability conducted by the NSW Treasury Corporation.

The response to this criterion should summarise the council's case for the proposed special variation. It is necessary to show how the council has identified and considered its community's needs, as well as alternative funding options (to a rates rise).

The criterion states that the need for the proposed special variation must be identified and clearly articulated in the council's IP&R documents especially the Long Term Financial Plan and the Delivery Program, and, where appropriate, the Asset Management Plan. The purpose of the proposed special variation should also be consistent with the priorities of the Community Strategic Plan.

3.1 Case for special variation - community need

Summarise and explain below:

- How the council identified and considered the community's needs and desires in relation to matters such as levels of service delivery and asset maintenance and provision.
- How the decision to seek higher revenues above the rate peg was made and which other options were examined, such as changing expenditure priorities or using alternative modes of service delivery.
- Why the proposed special variation is the most appropriate option: for example, typically other options would include introducing new or higher user charges and/or an increase in council loan borrowings, or private public partnerships or joint ventures.
- How the proposed special variation impacts the Long Term Financial Plan forecasts for the General Fund and how this relates to the need the council identified. Our assessment will also consider the assumptions which underpin the council's Long Term Financial Plan forecasts.

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

As mentioned earlier in this application all three former Councils had included SVs in their Delivery Programs and Operational Plans. Great Lakes and Greater Taree City Councils had applied for a SV in 2016/17, had included their respective proposals in their IP&R documentation and had engaged with their communities. At the time of the merger Gloucester was in the first year of a 3x13% SV and had identified the need for a further large SV in their Fit for the Future Proposal (SV from 2018/19 of 44.3% cumulative over 3 years). Prior to the merger all three councils had reviewed available options and concluded that a SV was required to address significant infrastructure maintenance and backlog issues.

Following the merger an assessment of community needs across the area was undertaken through a review of the three councils IP&R documents and available survey material. It was clear that across the new MCC area the community consistently rated the need to repair infrastructure as the number one priority. This was strongly voiced by the community during early community meetings and engagement activities. This was further validated through the DPC commissioned survey of residents in the MCC area following the merger which identified the *condition of local streets and footpaths* as the top priority with a significant gap between importance and satisfaction (this survey is discussed in further detail in this application):

The three former Council's Community Strategic Plans also rated environmental protection and management as a high community priority. The following quotes from the respective Plans support this.

Great Lakes region

Key Direction 1 - Our Environment

Protect and maintain the natural environment so it is healthy and diverse; Ensure development is sensitive to our natural environment; Prepare for the impact of sea level rise and climate change; Sustainably manage our waste

Manning region

Key Direction 2 - Respecting the Environment

To recognise our responsibility as a community to protect and preserve the environment for future generations

Gloucester region

Key Message 2

Our people care about Gloucester's unique environment and want to ensure that it is nurtured and protected

Surveys conducted across the three former Councils consistently rated protection of the natural environment as a core priority area. Council proposes to use funds raised from the Environmental Levy to fund ongoing environmental programs across the local government area and to partner with State and Federal Government to support environmental initiatives.

Council commissioned Morrison Low to review the available asset data across the three former areas and provide a consolidated view of the asset situation including infrastructure renewal gap and backlog. At the same time Council's financial team reviewed the consolidated long term financial position.

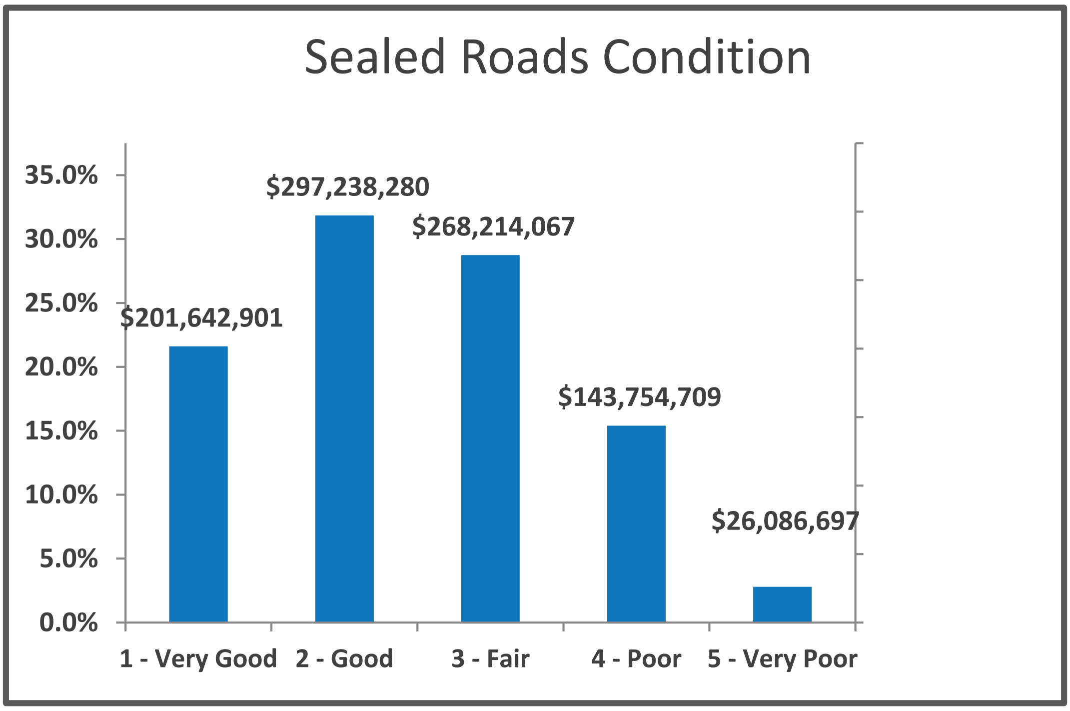
From the results of this financial and asset analysis it was confirmed that MCC faced challenges to retain asset conditions at current levels (much less address the significant backlog) without significant increases in revenue and/or significant reductions in expenditure and service levels. As a result of this analysis community engagement was conducted in June 2016 to advise the community of the merger situation and to highlight that a Special Rate Variation would be investigated to ensure financial sustainability of the new Council and to address critical asset renewal requirements.

Following the June 2016 community engagement program, further detailed analysis was undertaken to review asset conditions across MCC and the consolidated financial position. The asset analysis was conducted with support from technical asset experts Morrison Low and this identified the new Council had significant challenges with a sealed road and bridges infrastructure backlog in the order of $180 million and an annual renewal gap of $5 million. The high level asset strategy resulting from this analysis is to:

- Continue to maintain assets across MCC in their current condition
- Ensure that condition 3 roads do not deteriorate into condition 4 & 5
- Prioritise the renewal of roads in condition 4 & 5 based on risk and economic benefit considerations
- Pursue additional grant funding for regional roads and major transport routes
- Seek a SV to fund the annual $5M gap in renewal program funding for the sealed road and bridge network

(Note: condition ratings are based on a 1-5 scale with 1 being *very good* and 5 being *very poor*)

The graph below indicates the condition of sealed roads based on a 1-5 scale, which shows the large portion of roads in condition 3.



Supporting the high level asset strategy was a Financial Funding Strategy to address the immediate asset renewal needs of Council's roads and bridges network. This Roadcare Program will utilise existing pre-merger Council savings, re-allocate savings achieved through merger efficiencies and use funding from the State Government's Stronger Communities Major Projects Fund. It allows for additional works to commence immediately in accordance with the above strategy.

While the Roadcare Program will provide immediate community benefits it is only a temporary, but significant, addition to the capital works program. The fundamental gap in funding to address road and bridge renewal remains and can only partially be addressed through efficiency savings. If Council does not take action to address this funding shortfall it is certain that condition of the road network will continue to deteriorate and the backlog of unfunded works will increase. This will in turn impact on customer satisfaction as it is well known that the condition of the road network is of critical importance to our community.

As such a modest special rate variation is proposed which will provide an additional $8 million (after 4 years) for road and bridge capital renewal works. This will ensure that sufficient funds are available to meet asset renewal requirements and to address the backlog.

Why SV is most appropriate option- and not other options such as new/higher user charges, increase in loan borrowings, partnerships/joint ventures

In preparing its budgets and Long Term Financial Plans Council considered the options available to fund its various services. Where possible it increases the level of its fees and user charges to match the cost of provision of the service e.g. competitive building inspection services. However for the projects proposed under this special variation a user pays philosophy is not applicable in that it is not possible to separately charge each user of Council's infrastructure or community assets.

Additionally private sector interest in entering into a joint venture or partnership with local government to maintain its infrastructure networks has been extremely limited, indicating low profit opportunities.

As such this leaves borrowings as the most appropriate alternate source of funding for these works. However the former Great Lakes Council had previously been in a position where it funded renewal capital expenditure by borrowings. As discussed further below this practice contributed to that Council's previous financial problems in that eventually repayments outstrip the amount borrowed.

Both the former Great Lakes and Greater Taree City Councils had Financial Sustainability reviews undertaken by Professor Percy Allan’s Review Today Consultancy. In the reviews financial and funding analysis (specific to Great Lakes) they provided the following comments in respect of the appropriate use of borrowings:

"On inter-generational equity grounds, it is appropriate that additional borrowings be used to fund enhancement capex, as capex gives rise to infrastructure services benefiting future (as well as current) ratepayers, Only renewals capex should be funded wherever possible by past and present ratepayers, with additional borrowings not being relied upon to finance such capex except in exceptional circumstances. Fully funding depreciation is the most equitable (in an inter-generational sense) means of funding renewals capex. Borrowing to fund renewals capex should only be tolerated where depreciation has been under-funded in the past".

Former Councils took heed of this warning and restructured their budgets to align capital renewal expenditure with the most appropriate revenue source - rate income.

In this special variation proposal the programs to be funded are asset renewal based and as such it is Council's opinion that they should be funded from rates revenue consistent with the above recommendation.

Opportunities for alternate service delivery models are investigated and pursued where advantageous. Council does this with the delivery of its infrastructure maintenance using a blend of Council staff, labour hire and contractors to deliver its services. It will continue to do this.

The decision to seek this special rate variation is about having the funds available to engage the most appropriate mode of service delivery.

Council has limited options for raising additional funds for asset maintenance. Grant opportunities are sought where possible, however they are limited in availability and when they do arise there are restrictive criteria for eligibility that limit their application to broader asset renewal and backlog requirements.

3.2 Financial sustainability

The proposed special variation may be intended to improve the council's underlying financial position for the General Fund, or to fund specific projects or programs of expenditure, or a combination of the two. We will consider evidence about the council's current and future financial sustainability and the assumptions it has made in coming to a view on its financial sustainability.

You should explain below:

- The council's understanding of its current state of financial sustainability, its long-term projections based on alternative scenarios and assumptions about revenue and expenditure.
- Any external assessment of the council's financial sustainability (eg, by auditors, NSW Treasury Corporation). Indicate how such assessments of the council's financial sustainability are relevant to supporting the decision to apply for a special variation.
- The council's view of the impact of the proposed special variation on its financial sustainability.

All three former Councils had devoted considerable time and resources to understanding their underlying financial position and future financial sustainability and had developed plans to address their issues. The IPART would be aware of those positions and plans from previous special variation applications from Great Lakes, Gloucester Shire and Greater Taree City Councils and their Fit for the Future submissions.

It is not proposed to re-visit the individual positions of each of the former councils or the studies and reports that had been prepared to assist in addressing the common financial and asset sustainability problems faced by each.

Each of the former Councils had developed Long Term Financial Plans and scenarios that addressed the particular circumstances of their Council area. This included estimates of revenue growth and cost increases, capital funding strategies and rating strategies. These estimates and strategies were reflected in the budgets that they developed for the 2016/2017 financial period and which were subsequently adopted by MidCoast Council.

To obtain a snapshot of the current financial operating environment on day 1 of the new Council a long term financial projection was developed based on the adopted 2016/2017 budget. Common indexation was applied across the ten years of the Plan.

The Operating Results from that original plan are shown below:

2016/2017 Day 1 Harmonised Indexation LTFP - MidCoast Council - Operating Results

Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Net Oper. Result	(4,238)	(11,081)	(10,275)	(7,655)	(9,379)	(8,501)	(8,326)	(8,459)	(9,252)	(9,301)
Oper. Result less Cap Grants	(17,160)	(16,117)	(15,511)	(15,094)	(15,068)	(13,995)	(14,126)	(14,209)	(15,084)	(15,238)

This confirmed the expectation that the new Council was faced with a serious financial sustainability issue. It also re-confirmed the conclusions drawn by all three former Councils that a special rate variation was a key component in addressing this issue.

It should be noted that this initial projection did not include any savings that may have been achieved from the amalgamation. Those savings would be identified, achieved and re-allocated during future budget reviews and budget development processes. This projection did not address the different depreciation rates or useful life assessments that may have been used by the former councils to calculate their depreciation expense. However there is an expectation that as asset harmonisation occurs there will be a downward adjustment to the overall depreciation expense. This is partially based on the review conducted by Morrison Low and following discussions with staff from the 3 Councils around the asset management maturity of their individual systems and accuracy of the underlying data.

This initial Long Term Financial Projection was subsequently updated to reflect an assumed rate peg of 2.5% across the term of the model following discussions with the IPART on this Special Rate Variation application (the initial projection used an assumed rate peg of 2.0%). Adjustments were also made to remove the two Environmental Levies that were contained within Council's rating structures at the time of their expiry in 2018/2019 and 2019/2020 and most of the expenditure associated with those levies. The initial projection assumed their continuation across the term of the projection in line with Council's position that these levies would renewed at expiry.

These adjustments are now reflected in the 2016/2017 LTFP Base Case. The Operating Results from that Base Case (which is still essentially a Day 1 view of the new organisation) are shown below:

2016/2017 Base Case -Operating Results

Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Net Oper. Result	(3,823)	(10,982)	(9,827)	(7,141)	(9,365)	(8,473)	(8,284)	(8,400)	(9,174)	(9,203)
Oper. Result less Cap Grants	(16,805)	(16,078)	(15,122)	(14,640)	(15,114)	(14,026)	(14,144)	(14,210)	(15,066)	(15,201)

A second scenario was also developed based on the special rate variation proposal. The additional income generated for infrastructure renewal works (4 X 2.5%) has been wholly allocated to capital renewal works while the funds raised from the Environmental Levy (1 X 6%) have been allocated as operational expenditure.

The Operating Results for that scenario are shown below and highlight the improvement to Council's financial position.

2016/2017 Special Variation Scenario - Operating Results

Year	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Net Oper. Result	(3,823)	(9,151)	(6,199)	(1,274)	(869)	239	651	761	218	426
Oper. Result less Cap Grants	(16,805)	(14,247)	(11,495)	(8,774)	(6,617)	(5,314)	(5,209)	(5,049)	(5,674)	(5,571)

As a result of the legislative uncertainty that surrounded the ability of Mid-Coast Council to submit this application, the 2017/2018 budget was nearing completion when clarification of Council's position in respect of making an application was received. A revised Long Term Financial Plan was prepared using the 2017/2018 budget as the base year and this included a scenario modelling the impact of a successful special rate variation.

The results of the Base Case and Special Rate Variation Scenario are outlined below and support the conclusions drawn from the 2016/2017 Long Term Financial Projections.

2017/2018 Base Case Operating Results

Year	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Net Oper. Result	(12,927)	(10,597)	(11,098)	(11,821)	(11,597)	(10.711)	(10,239)	(10,226)	(10,807)	(10,289)
Oper. Result less Cap Grants	(17,454)	(13,777)	(14,356)	(15,157)	(15,015)	(14,211)	(13,825)	(13,898)	(14,568)	(14,142)

2017/2018 Special Rate Variation Scenario - Operating Results

Year	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Net Oper. Result	(10,941)	(6,773)	(4,990)	(2,848)	(2,403)	(1,288)	(583)	(330)	(665)	104
Oper. Result less Cap Grants	(15,469)	(9,953)	(8,247)	(6,185)	(5,820)	(4,788)	(4,168)	(4,002)	(4,427)	(3,750)

This Long Term Financial Plan has been based on a number of assumptions as to future cost and revenue increases.

From a revenue perspective it is assumed that the rate peg will increase by 2.5% per annum from 2018/2019. For 2017/2018, the Base Case reflects a 1.5% increase for the rate structures of the former Great Lakes and Greater Taree City Councils. An increase of 13% is reflected for the former Gloucester Shire Council area in line with an existing special variation approval.

The Special Rate Variation Scenario reflects the proposal put to the community being an 11% increase in 2017/2018 followed by 3 annual increases of 5% before returning to the assumed rate peg of 2.5% from 2021/2022. It should be noted that the special rate variation increase includes an assumed rate peg of 1.5% for 2017/2018 and 2.5% for subsequent years (based on IPART advice) and that the increases are applied evenly across the three former rate structures.

Domestic Waste Management Charges and Waste Management Annual Charges have been frozen from 2017/2018 for 3 years at their 2016/2017 level. This will assist with affordability and any shortfall in funding can be covered by accumulated Waste Reserves.

Operating grants and contributions are increased by approximately 1% per annum and this reflects a general tightening in availability of government grants. The Financial Assistance Grant (FAG) has been frozen for several years however the Federal Government has indicated in the May 2017 Budget that indexation will recommence. At this stage there has been no indication of what that indexation factor will be. Council has been advised by the NSW Grants Commission that merged councils will continue to receive an amount equivalent to the total received by the former councils. Council is also aware that the Grants Commission is allocating additional funds to small rural councils at the expense of regional councils. As such it is fair to assume that Council will not receive a significant uplift in its FAG payment in future years.

Capital grants and contributions are also expected to grow slightly and this reflects a conservative approach by Council in budgeting for these amounts. While the combined former Councils had historically received an average of approximately $7 million per annum, there has been little consistency in the flow of these funds with the source, purpose and duration of these funds changing each year. Given this uncertainty Council prefers to take a conservative approach when forecasting the amount of capital grants and contributions in the LTFP.

Interest earned on invested funds is predicted to increase by approximately 1% across the 10 year timeframe of the Plan. Discussions with Council's financial institutions indicate that expectations are for a flat yield curve for a number of years. Other revenue items are generally predicted to grow by between 2% and 3% per annum, however a large number of these fees are regulated by State Government and have not increased for a considerable period of time, hence the quantum of the increase is quite small.

From an expenditure perspective Council has based growth in employee costs at 2.75% per annum. This is based on an Award increase of 2% per annum combined with the progression of some staff through their respective salary system. A new Local Government Award is due to be handed down before 30 June 2017 and should the Award increases come in above the estimated increase then Council will need to review its cost base to identify additional savings to match this increased cost.

Materials and contracts and other expenses are expected to grow by 2.5% per annum while an indexation factor of 0.45% has been applied to depreciation and amortisation to reflect the growth in the asset base over time. However as mentioned above there is work being undertaken to confirm the accuracy of the underlying depreciation expense.

The Base Case scenario includes the removal of the existing Environmental Levies in 2018/2019 (Greater Taree) and 2019/2020 (Great Lakes) and the majority of the associated expenditure. There is still some legislated expenditure and projects currently being funded from these levies that will need to continue and this does have an adverse impact on the projected results in those years and beyond.

The 2017/2018 budget also incorporates and reallocates merger savings realised or identified during 2016/2017. Realised savings during 2016/2017 have been progressively transferred into a Merger Savings Reserve to fund implementation expenses or for reallocation back into the operating or capital budget. Given that the 2017/2018 budget used the 2016/2017 budget as a starting point a number of these savings were also replicated into the new budget. These savings were reallocated within the 2017/2018 budget on a permanent basis to capital road and bridge renewal programs. This is in line with the Council's funding of its $30 million Roadcare program.

With staff structures being finalised and other implementation and integration projects commencing additional merger savings will be achieved during 2017/2018. These savings will also be permanently reallocated to infrastructure renewal works.

With the exception of Morrison Low's review of the new Council's asset position and estimate of the required funding, there have not been any external assessments of Mid-Coast Council's financial sustainability. However as discussed earlier, there were numerous studies and reviews conducted on the three former councils. As a merged Council, MidCoast is also subject to regular review, reporting and monitoring through Department of Premier & Cabinet. The work done to date in developing a Long Term Financial Plan for the new organisation has only reconfirmed the conclusions from those studies that all three councils needed to generate additional revenue to meet asset renewal requirements and to ensure their long term financial sustainability.

Council is of the view that the special rate variation as proposed is a critical component in ensuring its long term financial sustainability. The three former councils had prosecuted this view independently for a number of years through the Fit for the Future process and special rate variation applications. The amalgamation of the three Councils did not alter the underlying financial position and as such MidCoast Council has inherited a challenging asset and financial situation. This special rate variation proposal goes a long way to setting the new Council up for a successful future.

3.3 Financial indicators

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

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

The proposed special rate variation will have a positive impact on Council's financial indicators.

A number of those indicators are included below as well as being included in Council's Long Term Financial Plan. These are based on the 2017/2018 budget. Reference below will also be made to the combined position of the 3 former councils at 12 May 2016 with these figures taken from the audited financial reports.

At 12 May 2016 the following consolidated indicators were recorded:

Indicator	Result
Operating Performance Ratio	7.10%
Own Source Operating Revenue Ratio	62.78%
Unrestricted Current Ratio	2.30x
Debt Service Cover Ratio	4.31x
Cash Expense Cover Ratio	8.69 months
Infrastructure Renewals Ratio	122.60%
Infrastructure Backlog Ratio	12.48%
Asset Maintenance Ratio	89.83%

However it should be noted that these indicators were point in time and that the preparation of the underlying financial reports included adjustments for the shortened timeframe and changes to the normal recognition principles that meant that accruals did not match financial periods for some items.

While the 12 May 2016 figures would indicate that Council is generally meeting its asset management responsibilities based on the ratios, the breakup of the figures and prior year results reveal that there were some variances between the former organisations. Once again these issues have been addressed in the previous special rate variation applications and Fit for the Future submissions of the former Councils.

The indicators arising from the preparation of the 2017/2018 budget and LTFP for both the Base Case and Special Rate Variation Scenario give a better view of the impact of the special variation on Council's financial position.

The following tables compare a number of the indicators under the Base Case and Special Rate Variation scenarios.

Operating Performance Ratio

	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Base	-12.58%	-9.76%	-10.10%	-10.62%	-10.27%	-9.48%	-9.03%	-8.88%	-9.11%	-8.66%
SRV	-10.95%	-6.84%	-5.50%	-4.00%	-3.67%	-2.95%	-2.51%	-2.36%	-2.55%	-2.12%

Own Source Operating Revenue Ratio

	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Base	76.90%	77.87%	77.81%	77.70%	78.02%	78.34%	78.54%	78.73%	78.92%	79.11%
SRV	77.29%	78.51%	78.94%	79.38%	79.67%	79.97%	80.16%	80.34%	80.52%	80.70%

Unrestricted Current Ratio

	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Base	3.94	3.68	3.82	3.95	4.21	4.50	4.71	4.80	4.90	5.19
SRV	3.98	3.75	3.93	4.14	4.51	4.91	5.24	5.44	5.66	6.11

Debt Service Cover Ratio

	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Base	2.15	2.57	2.53	2.87	3.50	4.57	6.78	7.51	8.07	8.99
SRV	2.30	2.87	3.01	3.69	4.53	5.90	8.8	9.79	10.63	11.86

At this time infrastructure ratios such as the Building & Infrastructure Renewal Ratio, Infrastructure Backlog Ratio and Asset Maintenance Ratio have not been projected forward given the need to harmonise the asset management practices of the three former Councils and the fact that they are predominantly drawn from Special Schedule 7.

Of the ratios identified above TCorp identified the first 2 as being indicators of financial sustainability. The benchmarks were as follows:

Operating Performance Ratio -

Definition - Core measure of financial sustainability - indicates Council's capacity to meet ongoing operating expenditure requirements

Benchmark - Greater than or equal to breakeven over a 3 year period

Result - The Base Case indicates that Council will not meet this benchmark over the next 10 years. The Special Rate Variation Scenario indicates that Council will not meet this indicator over the 10 year period. However the ratio is less than -3% from 2022/2023 onwards which equates to approximately $4 million per annum. With further merger savings, the completion of the review of the asset data and confirmation of the annual depreciation expense this deficit can be addressed.

As mentioned above the special variation is a critical component for Council moving to a position where, with other actions, it can meet this financial sustainability benchmark.

Own Source Operating Revenue Ratio -

Definition - Councils with higher own source revenue have greater ability to control their own operating performance and financial sustainability.

Benchmark - Greater than 60% over a 3 year period.

Result - Council meets this benchmark under both scenarios.

Building & Infrastructure Asset Renewal Ratio -

Definition - Measures whether a Council's assets are deteriorating faster than they are being renewed - indicator of whether a Council's infrastructure backlog is likely to increase.

Benchmark - Greater than 100% average over a 3 year period.

Result - While Council met this indicator in 2015/2016 and has allocated considerable funding to this area in 2016/2017 it is the area that requires urgent attention as this application outlines. All 3 former Councils were providing or seeking to provide funding injections into their capital renewal works programs. Some of these were being funded from sources that were not permanent or ongoing. This meant that the ratios being recorded were not sustainable in the longer term.

The review by Morrison Low indicates that Council is underfunding annual renewal expenditure by approximately $5 million. This special rate variation application, if successful will provide those funds over the 4 year term of the variation and these funds will be permanent and ongoing which means that Council should be able to meet this benchmark on an ongoing basis.

Other Ratios -

The Unrestricted Current Ratio and Debt Service Cover Ratio are both improving over time and indicate that Council has the capacity to increase its debt levels. Council is already considering how it can use this capacity in the current low interest environment to fund enhancement capital expenditure projects. It is conscious that items such as bridge replacements may be candidates for loan funding and is developing a works program of appropriate projects.

3.4 Contribution plan costs above the cap

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

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

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

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

N/A

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

4 Assessment criterion 2: Community awareness and engagement

Criterion 2 in the Guidelines is:

> *Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. IPART's fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.*

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

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

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

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

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

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

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

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

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

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

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

4.1 The consultation strategy

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

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

Consultation strategy

Background

One of the initial critical priority areas for MidCoast Council was the formation of relationships with the communities that comprise the MidCoast LGA. Based on positive experience at the former Councils, face to face community engagement was identified as an effective means of contributing to this objective. Experience has shown that this regular face to face engagement has enabled more open and transparent communication between the senior leadership team and the community.

The meetings have proven to be an integral part of continually lifting the knowledge of residents on important issues impacting the local area which in turn enables robust discussion and more informed input and decision making. Through this approach we are able to take the community's understanding of complex issues including financial sustainability, asset management and broader local government reforms to a much higher level.

A Community Engagement Strategy based on this approach was adopted by Council to support the proposed SV. (Attachment 15)

Underlying principles

A few underlying principles and approaches provide the foundation for Council's community engagement strategy for the SV. Firstly, we know that community engagement provides the basis for strong relationships, effective planning and decisions and in the end, better democracy. Our community engagement activities are developed to support this objective and are based on the International Association for Public Participation (IAP2) spectrum that defines the public's role in any community engagement program.

In addition, we utilise the Australian Business Excellence Framework to guide our efforts towards continuous improvement across the organisation. Two key principles from the framework support Council's focus on community engagement and decision making being:

- Understanding what customers and other stakeholders value, now and in the future, enable organisational direction, strategy and action; and
- Effective use of facts, data and knowledge leads to improved decisions

Both of these principles have informed Council's actions and strategies to improve the condition of the transport asset network and financial sustainability.

MidCoast community meetings

MCC committed to undertaking a bi-annual community engagement program with the Interim General Manager, senior staff and Administrator providing face to face community updates around the MidCoast LGA. Meetings have been held in 10 locations including Taree, Forster, Gloucester, Tea Gardens, Wingham, Hallidays Point, Old Bar, Harrington, Stroud and Bulahdelah.

Due to the complex environment and pace of change as a merged entity, a total of 3 rounds of meetings (30 meetings in total) have been held since the amalgamation in May 2016. The first round of meetings was held soon after the amalgamation in June/July 2016 with additional sessions held in October 2016 and March 2017.

Each round of meetings has attracted an average of 400+ attendees, a significant achievement for a new Council. Each meeting has attracted a mix of regular and new attendees. Positive indicators of the effectiveness of messaging and relationships building at these meetings can be ascertained from the verbal feedback from attendees who are highly complementary of Council's approach and efforts to engage with the community on high level strategic issues and on matters that impact them as ratepayers. Feedback has been regularly received regarding the clarity and consistency of the messaging.

The sessions provide an opportunity for Council to inform the community on the strategic direction of the new Council and to build trust between the community and Council. The initial meeting focussed on the purpose of the meetings, the history of the amalgamation, NSW key result areas, roles of MCC officials and representatives, corporate strategic frameworks, roadmap for integration, high level financial and asset information, and challenges and opportunities including a potential special rate variation.

The community was advised that the subsequent round of meetings would provide more specifics on the integrated asset and financial position of Council. Based on the expected outcomes of that integration, it would also be likely that Council would present details of a specific SV proposal.

The October 2016 meetings looked at the MidCoast priority focus areas, integration activities, integrated financial and asset information and the specifics of a SV proposal. This included the impact of a SV on each of the three regions. The complexity of the message around the SV cannot be understated. As discussed in other sections of this application, the situation is complicated due to the various rating structures in each of the three former Council areas which see different rates being paid by residents and businesses in each region. This is further complicated by the fact that the regions had various existing approvals for SVs including environmental levies.

Another complication was the unconfirmed position of the NSW Government on the eligibility of merged Councils to apply for a SV. As of October 2016, the position had been stated in a media release from NSW Government and IPART had delivered its report to the Minister of Local Government on a proposed approach to implement the rate path freeze policy, however a position had not been documented in the SV Guidelines from the Office of Local Government (OLG) or in legislation.

The Government's position was also communicated to the public and MidCoast decided to proceed with a SV proposal until such time the Guidelines were published and the Government's position clarified.

Information on Council's asset and financial position as well as the SV proposal was included on a FAQ sheet (Attachment 6, p 19-20) distributed at community meetings which was also available on Council's website. Council continued to update the relevant details on its asset investigations as the situation changed (for example, ongoing bridge testing has shown a significant increase in the backlog of bridge works required to maintain that asset base in a safe and sustainable state).

In late December, the OLG issued updated SV Guidelines which confirmed that merged councils were ineligible to apply for a SV. Council's March community engagement program reflected this decision and it was highlighted that Council would continue to work with the NSW Government on options to best address the significant issue it faced regarding underfunding of asset renewal and backlog.

Additional background - Fit for the Future proposals
As a result of the Government's Fit for the Future (FFtF) assessments, since its formation MCC has been aware that the consolidation of the three former Councils would result in a demonstrated shortfall in funding and a substantial backlog in road and bridge asset renewals. As part of the FFtF process all three former Councils had factored in rate variations into their improvement proposals. The proposed variations are included in the IPART assessment of the FFtF proposals for each former Council (Attachment 16).

The former Greater Taree City and Great Lakes Councils had already applied for SVs for 2016/2017 however these were unable to be determined by IPART due to the merger announcement being made just days prior to the determinations being issued. The Gloucester region currently has 1 year remaining of a 3 x 13% SRV determination and had indicated the intention to apply for further increases. The FFtF proposals, undetermined SV applications and existing determinations are all related to the underfunding of asset renewals.

Additional background - service levels & community surveys
The condition of the sealed road network is assessed on a 1-5 scale with 1 being 'very good' and 5 being 'very poor'. Once roads slip into condition 4 and condition 5, the cost to bring them back to a satisfactory service standard increases and if funding is not available for these works, the backlog increases as does the community's dissatisfaction of the road network. The goal is to obtain maximum asset life through a renewal program where roads can be held at condition 3 for an appropriate length of time and renewals funded when required to meet community agreed service levels.

Through previous community research Council is also aware that the community is generally satisfied with roads at condition 3, with the expectation of lesser used roads being acceptable in condition 4. MidCoast Council has based the strategy to address the underfunding of assets using this asset service level approach.

Although MidCoast Council only commenced community engagement on asset management, service levels and a SV proposal in June 2016, each of the former three Councils had been undertaking community engagement activities and conversations with their communities regarding funding options for years prior to the amalgamation. The specific activities and summary of community surveys can be found in the previous SV applications from Great Lakes, Greater Taree City and Gloucester Shire Councils. Details of those activities and surveys have not been repeated in this application.

The former Councils had also flagged SV applications in relevant IP&R documentation.

It was clear from the outset of the formation of the merged entity that the asset position would be a high priority due to the direction that all three previous Councils were on in regards to a pre-merger rate path. The importance of this focus was again reinforced through the results of a community satisfaction survey undertaken in September 2016 by JWS Research on behalf of the NSW Department of Premier and Cabinet (DPC) (Attachment 6, p 1-76).

One intention of the survey was to inform priority focus areas for MidCoast, being the areas where the community identified the largest gap between importance and performance. It should be noted that the results are likely reflective of respondents' perceptions of the former councils as there had been limited opportunity to form an opinion of the newly formed Council. The top focus area was *the condition of local streets and footpaths* which had a significant gap between importance and significance.

Although it was evident that the underfunding of asset renewals required immediate attention through a SV, MCC decided to undertake a statistically valid survey to ensure transparency and to check the affordability of the proposal with the community.

In November 2016 MidCoast Council engaged Jetty Research to conduct a random and representative telephone survey of 400 local residents to measure current knowledge of, support for and ability to pay a proposed SRV and an Environmental Levy.

MidCoast Council residents were contacted and recruited to participate in a telephone survey a week or so later. Initial recruitment was conducted from November 14th to 17th as a random telephone survey of 570 adult residents living within the MidCoast LGA. Quotas were applied by region, with 225 in each of the former Great Lakes and Greater Taree City Councils and 100 in the former Gloucester Shire Council recruited to reflect differences in population size while still maintaining an adequate sample size for cross-analysis. No other formal quotas were applied, although attempts were made to ensure an adequate mix of respondents across age group, genders and sub-regions.

Individuals were sent an information pack (Attachment 6, p 146-154) outlining the reasoning and details regarding the proposed SV and Environmental Levy, including the impact on each region. Residents were then contacted (from November 23rd to 30th) to undertake the survey. In total, 407 surveys were conducted.

Based on the number of households within the nominated areas, a random sample of 407 adult residents provides a margin for error of approximately +/- 4.9% at the 95% confidence level. This essentially means that if a similar poll was conducted 20 times, results should reflect the views and behaviour of the overall survey population – in this case “all adult residents excluding council employees and councillors of the former councils” - to within a +/- 4.8% margin in 19 of those 20 surveys.

Results of the survey are provided in section 4.2 of this application.

All of this information has been critical in informing the way forward on asset management planning, addressing backlog issues and the impact on the long term financial position of Council.

Community engagement activities (including media)
A summary of community engagement activities undertaken by MidCoast Council regarding Council's financial sustainability, asset management approach and SV proposal are detailed below. Engagement activities undertaken by the three former Councils regarding the need for a SV and can be found in previous SV applications made by Great Lakes, Greater Taree City and Gloucester Shire Councils.

Activity	Date	Focus area
Community meetings	March 2017	General update on Council asset & financial position, efficiencies & savings, MCC identity, OP, elections, MidCoast Water
	October 2016	MCC priority areas, integration activities, asset & financial position, SRV options and proposal including detailed information on impact on each region
	Jun/July 2016	First round of meeting as MCC, introduction & roles of MCC officials, where we've been, NSW key result areas, strategic frameworks, integration roadmap, challenges & opportunities, SRV option, local projects
	Presentations - Attachment 17	
Newsletters (published quarterly, included in all rate notices & on Council website)	April 2017	Explanation of benefits of resealing roads; information on Council's $30M Roadcare program from Government funding and merger savings
	January 2017	Promotion of community meetings *No special mention of SRV as Guidelines had been issued which confirmed merged councils ineligibility to apply*
	October 2016	Promotion of community meetings with dates, locations & times and topics for discussion; feature article on rates and potential SRV including FAQs
	Newsletters - Attachment 5, p 1-6	
Community surveys	September 2016	JWS Research - community satisfaction survey coordinated by the Dept of Premier & Cabinet on behalf of newly merged councils
	November 2016	Jetty Research community survey commissioned by MCC to assess community knowledge of, support for and ability to pay for proposed SRV including Environmental Levy

	JWS survey - Attachment 6, p 1-76 Jetty Research survey Attachment 6, p 77-145	
Council website	June 2016 - May 2017	Promotion of community meeting dates and locations
		Copy of PowerPoint presentation available on website; community meeting presentations filmed and posted on website
		SRV page on website (and on home page at various times in this period) with relevant information and links to handouts from public meetings, presentations, SRV information package from community survey
		Addendum to DP on home page including links to relevant information, and link to 'make a submission'
		'Have your say' page includes prominent link to Addendum to DP consultation
	Sample material from website Attachment 18	
Facebook	October 2016 - March 2017	Posts from Council promoting community meetings and topics (including SRV)
	June 2016 - May 2017	Regular posts regarding road works and funding, interviews with senior staff regarding SRV
Radio	October - November 2016 & April - May 2017	Various interviews with GM regarding SRV, MCC asset and financial position, and how merger savings & efficiencies have funded $30M Roadcare program
	October - November 2016	Interviews re MCC activities which included promotion of community meetings
Newspapers	October - November 2016; May 2016	Papers throughout the MCC region - articles regarding potential SRV, intention to apply and promotion of community meetings; advertisement of DP addendum including SRV proposal
Public exhibition of IP&R documents	May 2017	Exhibition of Addendum to 2016-2017 delivery program/operational plan to include specific SRV scenario. Addendum - Attachment 19
	June 2016	Exhibition of first MCC combined delivery program/operational plan for 2016-2017*
	Note - former 3 Councils exhibited IP&R documents including Community Strategic Plans, resourcing strategies, delivery programs, operational plans pre-merger.	

IP&R documents related to the SRV

Community Strategic Plan (CSP)

As a merged Council the requirement to have a CSP is fulfilled by the CSPs of the former Councils. Notwithstanding, all three former Councils identified assets and the environment as priorities in the respective CSPs and that is reflected in the current planning for the MidCoast area. The following extracts from each of the regions CSPs indicates the importance that the MCC community places on maintenance of the transport network and the natural environment.

MidCoast Council has commenced engagement with its community regarding a CSP for the area, through workshops regarding the MidCoast brand and identity. This engagement will continue and a CSP will be presented to the new Council for endorsement by June 2018 in line with DPC guidelines for merged councils. In the meantime, the combined essence of the community priorities identified in the former CSPs has been used as a framework for MidCoast's IP&R framework.

Former Gloucester Shire Council CSP - Attachment 1, p 15-24

Assets

Introduction

"In addressing Direction one of the Community Strategic Plan, that public assets and infrastructure will be planned, managed and funded to meet agreed levels of service, a full condition assessment has been completed for all transport assets (roads, bridges, footpaths and kerbing). This shows that at our current revenue levels we do not have the capacity to fund a sustainable renewal and maintenance program. Council is looking at a range of revenue raising and cost reduction strategies and these continue to be progressed. However the magnitude of the maintenance and renewal backlog, particularly for roads and bridges clearly identifies that a significant rate increase is the only realistic means of rectifying the shortfall."

Key Direction - Maintaining core infrastructure

Objectives - Public assets and infrastructure will be planned, managed and funded to meet agreed levels of service; Ensure the road system meets the transport needs of the community; Adopt current best practice for design and maintenance of infrastructure

Strategies - Develop a comprehensive asset management capability; Resource and implement a prioritised maintenance program for all public assets, incorporating a risk management approach; Continue to engage with the community in relation to acceptable service levels for all public assets; Ensure achievement of road service levels identified in Council's Asset Management System; Implement the bridge and crossing replacement strategy; Review and improve road maintenance practices and procedures; Ensure public infrastructure and places are managed and maintained as safe, clean and inviting

Environment
Key Direction - Protecting the environment
Objectives - Provide effective environmental management in the Gloucester region; Manage environmental risks; Provide leadership in sustainability
Strategies - Improve knowledge and understanding of environmental issues; Prepare and support environmental strategies and plans; Develop, implement and support environmental management programs; Support catchment protection strategies; Maintain an active role in weed management; Respond to the impacts of climate change; Encourage environmentally sustainable development; Provide leadership in sustainability; Seek broad community engagement in environmental stewardship activity

Former Great Lakes Council CSP - **Attachment 1, p 1-4**

Assets
Key Direction - Strong local economies
Objective - Provide transport infrastructure that meets current and future needs
Strategies - Identify transport network needs based on recognised asset management processes; Maintain transport network infrastructure to current service standard

Environment
Key Direction - Our environment
Objectives - Protect and maintain the natural environment so it is healthy and diverse; Prepare for the impact of sea level rise and climate change
Strategies - Undertake an active management program to support a healthy environment that also provides for economic, recreational and cultural opportunities; encourage and support the community to embrace environmentally friendly behaviours and sustainable business practices; Manage the balance between natural siltation in our lakes and the provision of access for recreation and economic purposes; Reduce the impact of noxious weeds and invasive species on our environment through strategic management and education; Monitor and report on the health, productivity and diversity of the Great Lakes environment; Establish a risk based adaptation response to sea level rise and climate change

Former Greater Taree Council CSP - Attachment 1, p 5-14

Assets
Key Direction - Looking after what we've got
Objective - To improve the current standard of infrastructure and plan for the future needs of the community
Strategies - Public assets and infrastructure will be planned, managed and funded to meet community needs and agreed levels of service; Ensure the road system meeds the transport needs of the community

Environment
Key Direction - Respecting our environment
Objective - To recognise our responsibility as a community to protect and preserve the environment for future generations
Strategies - Maintain and enhance biodiversity, in accordance with the principles of ecologically sustainable development; Protect and preserve local water resources; Effective management of environmental risks and hazards; Ensure the preservation of quality agricultural land; Council is recognised for its leadership in sustainability; Community will have a high level of environmental knowledge and understanding

2016-2017 Delivery Program/Operational Plan (DPOP)
Attachment 2

Due to the timing of the announcement of the merger on 12 May 2016, the initial Delivery Program/Operational Plan was placed on public exhibition as one of the initial priorities to ensure IP&R deadlines could be met and rates issued in accordance with legislation and community expectation.

The plan is essentially the individual plans from each of the three former Councils, with a covering document explaining how it has been put together and what it means for 'business as usual' delivery of services for the MidCoast community. The document also discusses the need for a SV as MidCoast Council, as per section 2.2 of this application. Each of the former Councils had a DPOP ready for exhibition, or on exhibition at the time of the announcement of the amalgamation. These plans were used as the basis for the combined 2016-2017 MCC plan which was adopted by Council in late June after public exhibition.

Addendum to 2016-2017 Delivery Program/Operational Plan (DPOP)
Attachment 19

An addendum to MidCoast Council's current Delivery Program/Operational Plan was tabled at an Extraordinary meeting on 1 May 2017. The Council report and Addendum are included as Attachment 19. In accordance with Integrated Planning & Reporting legislation the addendum was placed on public exhibition for a period of 28 days. The addendum provides details of Council's proposed special rate variation to address underfunding of capital renewal works on Council's road and bridge assets, to start addressing the significant asset backlog and support ongoing financial sustainability.

As discussed previously the three former Councils highlighted the need for special rate variations through the Fit for the Future process to address existing asset renewal and backlog issues as well as financial sustainability. IPART's Fit for the Future assessments are included as Attachment 16.

Consistent with these, both Great Lakes and Greater Taree City Councils had applied to IPART for a special rate variation for 2016/17. Due to the timing of the announcement of the amalgamation, a formal determination on these applications was not made. The Gloucester region has one year remaining of an approved 3 year x 13% special rate variation and had flagged their intention to apply for an additional increase. When MCC formed it was evident that a critical initial priority would be consolidation of the asset and financial position to determine a sustainable path forward for our community.

The Addendum was written with the community in mind, in an easy to read format. The Addendum includes: an introduction, background and context to the document; information on the application process (and complications of that as a merged entity); information on infrastructure and assets; and the need for the SRV and community consultation undertaken. It also provides financial information on the base case and the SV scenario. Importantly, information is provided on the impact on rates for each of the 3 regions inclusive of the rate peg.

A report was presented to Council at an Extraordinary meeting on Wednesday 31 May (Attachment 19) summarising submissions received, with a recommendation to proceed with the application for a SV for the benefit of the community and responsible and sustainable management of the extensive asset network. Council resolved the following (included as Attachment 12):

1 *That Council adopt the addendum to the 2016/2017 Delivery Program/Operational Plan that includes a special rate variation proposal, and note the submissions received during the public exhibition period.*

2 *That Council make an application to the Independent Pricing and Regulatory Tribunal (IPART) under section 508A for a special variation to its general income being a 4 year permanent increase as follows:*

2017/2018 - 11% (inclusive of a 6% Environmental Levy and the rate peg)

2018/2019 - 5% (inclusive of rate peg)

2019/2020 - 5% (inclusive of rate peg)

2020/2021 - 5% (inclusive of rate peg)

Areas of common concern raised in the submissions are included in the Council business paper and discussed in section 4.2 of this application.

Asset Management Strategy and Plans

Notes:

- MidCoast has used the Morrison Low assessment mentioned below as the high level Asset Management Strategy to allow Council to focus on this critical area in a timely manner for the community. A formal Asset Management Strategy document for MCC has not yet been finalised.
- Council currently has a draft Asset Management Plan however the document has not yet been finalised. The Plan is based on the same methodology, approach and format as the former Great Lakes Asset Management Plan (Attachment 10, p 9-302).

- Work is continuing on re-segmenting roads in the Manning and Gloucester regions in accordance with the method used for the Great Lakes assets. This will ensure a uniform condition data system is utilised on all roads across the MidCoast area and will form part of the integrated Asset Management Plan.

Council's high level road asset data is provided in the table below:

Asset Class	Replacement Value	Written Down Value	Annual Depreciation
Sealed Roads Surface	$125,236,007	$73,780,442	$4,588,899
Sealed Roads Pavement	811,700,647	467,990,736	12,130,509
Unsealed Roads Structures	74,638,969	44,555,173	3,717,317
Bridges	240,660,816	163,510,938	2,564,278
Major Culverts	22,091,961	12,890,671	244,520
Footpaths	32,596,426	19,804,227	538,399
Kerb & Gutter	183,081,315	113,811,966	2,511,381
Traffic facilities	16,911,445	3,573,065	198,327
Causeways	4,730,170	2,185,818	74,042
Furniture	41,500	10,913	2,075
Other road assets	185,402	102,461	13,940
Bulk Earthworks	360,685,606	360,685,606	-
Total	**$ 1,872,560,264**	**$ 1,262,902,016**	**$ 26,583,687**

In August 2016 Council commissioned Morrison Low to provide advice on integrating the data sets from the three former Councils and provide a high level strategy to quantify and address the combined asset challenge. This information enabled Council to make evidence-based decisions on the future direction and management of its extensive asset network.

Morrison Low provided the attached document in September 2016 which was subsequently used to inform Council's October 2016 community engagement program (Attachment 10, p 1-8). The program focused on the integrated asset and financial position of MidCoast Council and proposed a sustainable way forward in regards to the sustainability of the region's transport network.

Morrison Low determined Council has an annual shortfall in its renewal funding for roads of $5 million per year. This is based on the following:

Annual depreciation	$37.34M
Renewals last year	$32.3M
Annual shortfall	**$ 5M**

Council has since confirmed this underfunding of roads and bridges renewal works. Until Council can fund this amount the asset backlog (currently at $180M) will increase. Council is continuing to collect condition data on the road and bridge network, and it is expected that the backlog will increase as these investigations continue.

Since the merger, investigations have been undertaken on 95 timber bridges. The investigations have indicated that more detailed structural evaluation of a number of bridges of concern is required. Detailed assessment has been undertaken on 48 of these bridges and expenditure of $750,000 has already been incurred to make these bridges safe.

Once investigations of the remaining bridges have been completed, it is expected that the expressed bridge backlog will be significantly higher than the initially projected figure and will demonstrate a funding renewal shortfall of approximately $1M per year above the current annual budget allocation. This information, as well as the consolidated road data will inform the consolidated Asset Management Plan for MidCoast Council. At the time of writing the integration of that large body of work was still being undertaken.

Long Term Financial Plan

The Long Term Financial Plan has been discussed in previous sections of this application and is available on Council's website and as Attachment 3.

4.2 Feedback from the community consultations

Summarise the outcomes and feedback from the council's community engagement activities. Outcomes could include the number of attendees at events and participants in online forums, as well as evidence of media reports and other indicators of public awareness of the council's special variation intentions. Where applicable, provide evidence of responses to surveys, particularly the level of support for specific programs or projects, levels and types of services, investment in assets, as well as the options proposed for funding them by rate increases.

Where the council has received submissions from the community relevant to the proposed special variation, the application should set out the views expressed in those submissions. Please refer to Section 1.2 concerning how the council should handle confidential content in feedback received from the community. The council should also identify and document any action that it has taken, or will take, to address issues of common concern within the community.

Background & context

Each of the three former Councils had clearly indicated a need with their communities for additional rate income to maintain infrastructure and tackle significant asset backlogs. The rate path for each of the three former Councils included rate variation proposals between 20% - 49%. Significant community engagement had already been undertaken by each of these Councils pre-merger.

Although the amalgamation has seen significant savings and efficiencies to date, it is not enough to provide the verified $5M on an annual basis that is required to fund renewals of assets, let alone start to address the significant $180M backlog.

As discussed previously, the Gloucester region has one year remaining of a 3 year x 13% increase. Should this application be successful Council will forgo that final year increase. The three regions also have various levels of Environmental Levies - ranging from no levy to 6%. The Gloucester region does not have an Environmental Levy while the Manning region has a 5% levy and the Great Lakes region has a long standing 6% levy. This application seeks to harmonise those on an ongoing basis.

This information was communicated to the community during the October/November community meetings via easy to read charts (included in the presentation as Attachment 17, p 27-77). A separate handout (Attachment 6, p 150-155) for each of the three regions was also prepared that formed part of the information pack for survey participants, was available at community meetings and on Council's website.

There has also been a perception that Council did not undertake community engagement regarding the SRV. MidCoast Council had undertaken extensive community engagement in late 2016 regarding the specific SV proposal, including impact on ratepayers in each region, the need for the SV and how it would be spent. The process was then put on hold due to the Government's position on the rate path freeze. It was resurrected in late March when legislation was passed allowing MidCoast to apply for a SRV.

In essence, by the end of 2016 Council had already undertaken the required community engagement necessary to apply for a SV. Once the legislation was passed in late March 2017, Council immediately re-commenced the application process. However as an extensive community engagement program (including a statistically valid survey) had already been undertaken, further engagement was not considered necessary (in line with the Office of Local Government Guidelines).

Council is aware of a small percentage of residents who believe that Council should not be permitted to apply for a SV until there is an elected body, and in line with the Government's position on a rate path freeze for merged Councils. These concerns are addressed in the 'Submissions' section below.

Council's decision to proceed with a SRV application has been influenced by:

- asset management standards and service levels (discussed in previous sections of this application)
- long term financial projections (including efficiencies and savings made)
- rate paths of previous Councils and related community engagement (discussed in previous sections of this application)
- results of the Community Satisfaction Survey undertaken by JWS Research on behalf of Department of Premier & Cabinet
- results of the SV survey undertaken by Jetty Research on behalf of MCC

JWS Community Satisfaction Survey
Attachment 6, p 1-76

The Department of Premier and Cabinet (DPC) commissioned JWS Research to undertake a community satisfaction survey in September 2016 on behalf of recently merged councils. Extracts from the report are provided below as context to the survey and the community's 5 key focus areas for MidCoast Council.

In a first for the NSW Local Government sector, the Department of Premier and Cabinet (DPC) coordinated delivery of this Community Satisfaction Survey amongst newly established councils in NSW in 2016. The survey is intended to produce data that will assist new councils in measuring success of implementation.

DPC together with new councils developed a success framework to guide the implementation of new councils and to measure progress. The Stronger Councils Framework defines a strong council as one that delivers results for their community, builds relationships and partnerships, and has the culture, people and capability to make this happen…

The 2016 survey is intended to provide baseline information on community views towards, and satisfaction with, the services of council. The research will be an important tool for councils to better understand what matters to their communities and enable them to focus their implementation activities to improve services, focus communications, enhance community perceptions of council and build stronger relationships between councils and their communities.

The 2016 survey is intended to provide baseline information on community views towards, and satisfaction with, the services of council, so as to inform priority areas for the newly formed councils to focus on.

The key focus areas as identified by the MidCoast community:

- Condition of local streets and footpaths
- Being a well-run and managed council
- Providing value for money for my rates
- Decisions made in the interest of the community
- Community consultation and engagement

The focus areas are all interrelated, and have been considered as part of the decision to proceed with an application for a special rate variation. With low satisfaction in the above areas, in particular the condition of local streets and footpaths, it was clear to MidCoast that the priority areas identified by each of the 3 former Councils in terms of increasing funding for roads, remains a priority for the MidCoast community.

Jetty Research SRV survey
Attachment 6, p 77-145

Although Council's proposed SRV was consistent with the SRV proposal for the former Great Lakes and significantly lower than the rate path proposed for the former Greater Taree City and Gloucester Shire Councils, a decision was made to proceed with a statistically valid survey. Both Greater Taree City and Great Lakes had undertaken similar surveys in relation to SV applications for 2016-2017.

The decision to undertake the survey is consistent with the priorities and key focus areas as expressed by the community in the JWS survey.

Method

Jetty Research undertook an informed survey on behalf of Council where participants were randomly selected and asked to participate in the survey. To allow respondents to make informed choices regarding the options for future asset management and funding models, they were asked to read a package of concise and simple information prior to undertaking the phone survey (see Attachment 6, p 146-155). This method has been found useful in building community capacity to evaluate options for a way forward. A sample size of 400 was used with a sampling error of +/- 4.9%. *This is a standard margin of error and consistent with the JWS Survey.*

In addition to the random and representative telephone survey, an opt-in online survey was run in parallel. The online survey was promoted via a prominent link on the MidCoast Council homepage to all SRV information (including the information pack and survey.) Council also promoted it at public meetings and in media releases. In total, 61 completed the online survey.

Major findings

Jetty Research provided the major conclusions of the survey as follows. A number of these are discussed further in the detailed discussion of results.

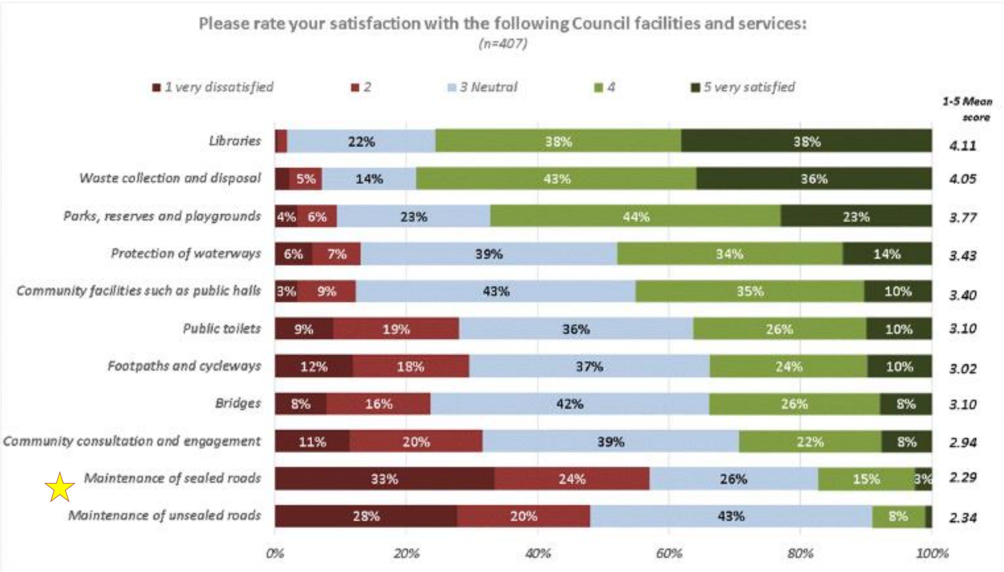
- Satisfaction with community assets highlighted the need to repair and maintain roads and bridges. Over half were dissatisfied with the maintenance of sealed roads
- Awareness of Council's current position with regard to the poor condition of roads and lack of funding to bring them up to standard was high
- Knowledge of the poor state of the roads, backlog of unfunded renewal works and requirements for additional funding to fund repairs was high – 84%, 78% and 89% awareness respectively

- While some confusion existed around Council's current level funding, the need for additional funding to stop the continued deterioration of bridges and roads was clearly the main take-out of the information pack, with almost nine in ten understanding (89%)
- Over half of residents (53%) suggested they would prefer better roads over lowest rates (just 12% were willing to sacrifice roads for the sake of lower rates and 35% were neutral.)
- Three-quarters of those polled supported the SRV to some degree (with 32% supporting it outright and a further 44% supporting it but believing the rate to be too high). There were regional differences in support
- Almost three quarters (74%) said they could afford to pay the 5% increase (28% comfortably and 46% if need be). Approximately one quarter of MidCoast Council residents (24%) would struggle to pay it , while the balance preferred not to answer
- Residents agreed that the environment is an important asset to the area (95%) and that maintaining the environment should remain a priority (87%)
- Over half of all residents (53%) suggested they would prefer more focus on the environment over lowest rates (while just 18% were willing to sacrifice the environment for the sake of lower rates)
- Support for the Environmental Levy was high, as was the ability to pay it
- Some 38% supported the proposed levy at the rate proposed, while 45% supported it in principle but felt the rate is too high. A further 15% did not see a need for any levy for the environment
- Four in five (80%) could afford to pay the associated increase to fund the Environmental Levy (40% comfortably and 40% if need be) while 18% said they would struggle to pay it
- Almost three in five (60%) said they could afford to pay the combined 11% SRV and Environmental Levy (20% comfortably and 40% if need be), while 38% felt they would struggle to pay it

Satisfaction with sealed road maintenance

Participants indicated that on a scale of 1 (very dissatisfied) - 5 (very satisfied), the maintenance of sealed roads was at 2.29 which was the lowest satisfaction rating of the 11 Council facilities and services that were included in the survey.

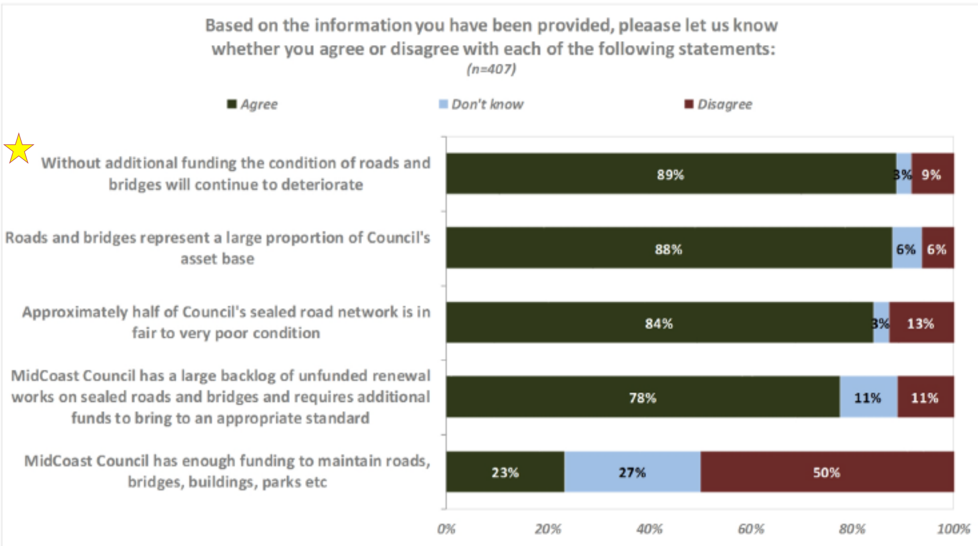
Graph 1.2: Satisfaction with Council facilities and services



Funding for roads

89% of residents surveyed agreed that without additional funding the condition of roads and bridges will continue to deteriorate.

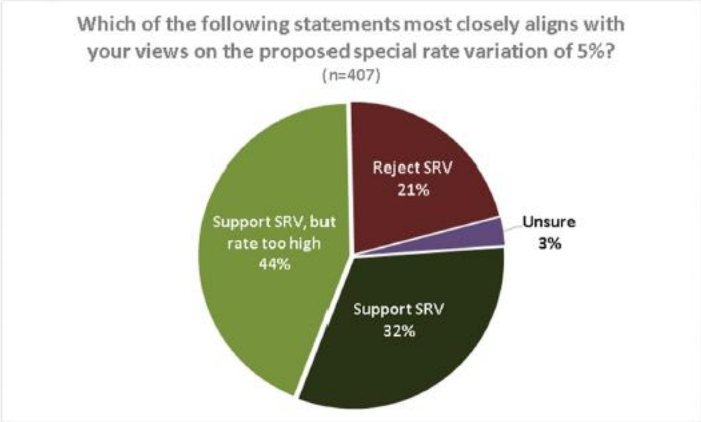
Graph 2.1: Knowledge of the requirement for SRV for roads and bridges requirement



SRV support

Across the region, 32% of people support the SRV as proposed with an additional 44% supporting it at a lower amount. The total of **76% support for a SRV (as proposed or lesser amount)** is a significant result in the context of a newly merged Council. Support varies by region and is attributable to the asset and financial position of the former Councils.

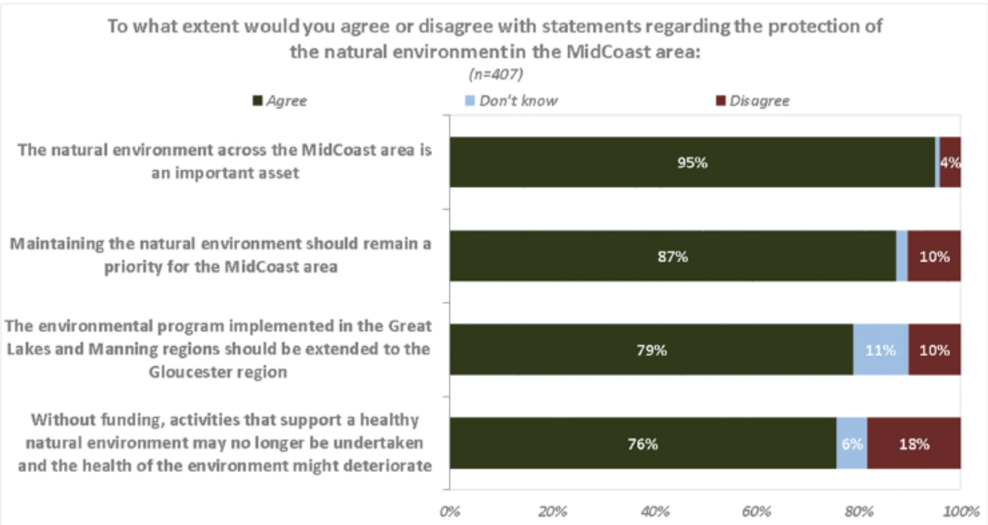
Graph 2.4: Which of the following statements most closely aligns with your views on the proposed special rate variation of 5%?



Environmental Levy support

95% of people agree that the natural environment across the MidCoast area is an important asset, with 87% agreeing that maintaining the natural environment should remain a priority for the MidCoast area. 79% of respondents agree that the environmental program implemented in the Great Lakes and Manning regions should be extended to the Gloucester region.

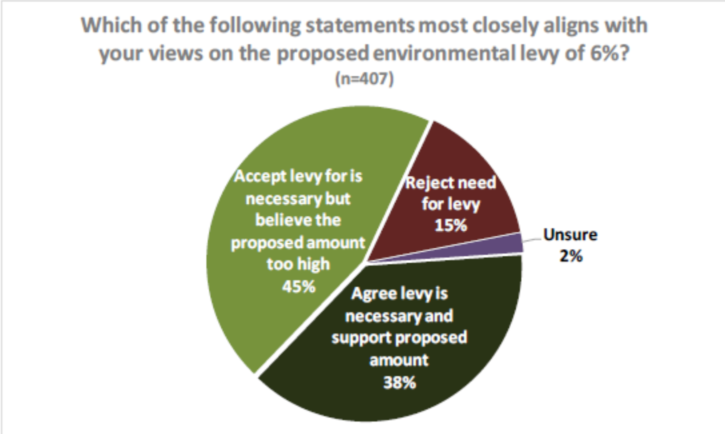
Graph 3.1: Knowledge of a requirements for an Environmental Levy



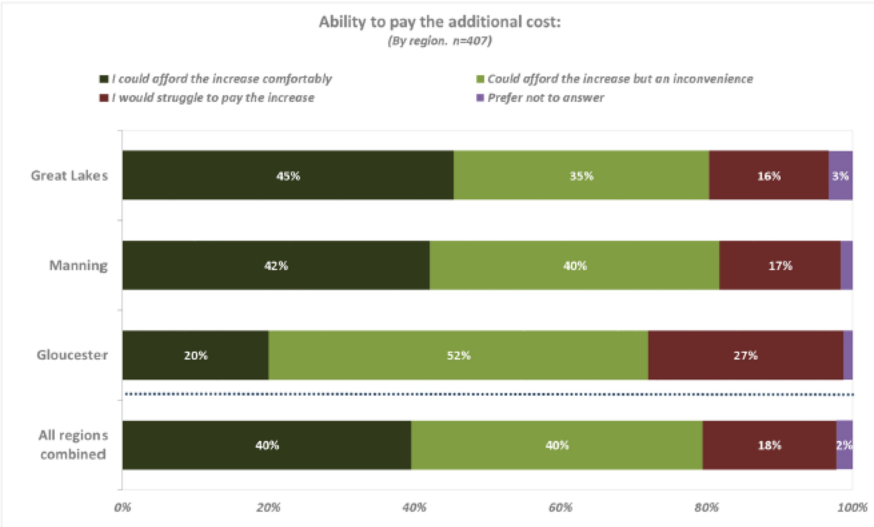
Residents were also asked whether they support the proposed environmental levy, with 38% agreeing that the levy is necessary and support the proposed amount. An additional 45% accept that it is necessary but believe the proposed amount is too high.

Across the region, four in five (80%) of residents believed they could afford to pay the associated increase to fund the environmental levy (40% comfortably and 40% if need be).

Graph 3.5: Which of the following statements most closely aligns with your views on the proposed Environmental Levy?



Graph 3.9: Ability to pay the additional cost, by region



Community meetings

Council has held 3 rounds of community meetings since May 2016, with 10 meetings each round across the MidCoast area. An average of 350-400 people attended each round of meetings. Council has also had the opportunity to address community groups through a combined Probus meeting (over 200 attendees) and regular Business Chamber meetings.

The initial round of community meetings was held immediately following the amalgamation in June - July. This provided an opportunity for the community to get an overview of the increased size, scale and capacity of Council and the MidCoast region as well as learn of the challenges and opportunities facing MidCoast. This included initial information on the combined asset and financial position of the new entity, as well as elements of the overarching strategy to ensure the merger is successful. (copy of presentation Attachment 17, p 78-117)

The community meetings held in October - November 2016 provided detailed information on the asset and financial position including service levels and the SRV proposal, as well as the impact of the proposed SRV on ratepayers in each of the 3 regions. The messaging was complicated due to the different rate structures and existing and expiring rate variations in each of the 3 regions. This information was communicated in several ways - both in a table format and a more visual graph format, to assist the audience understand the information. (copy of presentation Attachment 17, p 27-77)

A copy of the presentation was emailed to all attendees and placed on Council's website so people had the opportunity to review the information, and in particular the information regarding the impact of the proposed SV.

An official poll of support for the proposal was not taken at these meetings however the overall sentiment indicated an understanding of the need for and the impact of a SRV. Attendees also understood the negative long term impact on the condition of the transport network if the $5M annual shortfall in renewal funding was not addressed and the condition '3' roads slipped into condition '4' and '5'. There was clear understanding that this continued underfunding would have immediate negative impacts on the community's existing perception of the poor state of regularly travelled roads - the community's top priority for the MidCoast area.

Submissions from public exhibition of addendum

Identify and document any action taken or will take to address issues of common concern within community

The primary issues raised in formal submissions made to Council on the Addendum to the DPOP for 2016-2017 are detailed below. These issues also discussed in the Council business paper of 31 May 2017.

A total of 32 submissions were received by close of business 29 May 2017. Areas of common concern raised in the submissions were the perceived lack of community engagement; non-democratic decision making process; affordability; and varying levels of average rates across the area. These concerns are addressed below.

Community engagement

MidCoast Council has undertaken extensive community engagement on merger progress and strategic challenges since its inception in May 2016. The messages have been consistent, with a focus on the integrated asset and financial position and challenges of the new entity; strategic approaches to address this; building relationships with its community; provision of ongoing services and activities throughout the integration period; and a focus on finding efficiencies and savings through the merger.

The engagement activities summarised below included material that clearly communicated the impact on ratepayers in each region including the cumulative impact.

Council utilised IPART guidelines in the development of this information. This information was also included in the addendum to the Delivery Program/Operational Plan.

The need for a special variation was discussed at all of the community meetings and was the main focus of the October 2016 engagement program.

A summary of community engagement activities undertaken to date regarding Council's financial sustainability, asset management approach and SRV proposal are detailed in section 4.1 of this application. Engagement activities undertaken by the three former Councils regarding the need for a special variation in the former three regions can be found in previous applications for special variations made by Great Lakes, Greater Taree City and Gloucester Shire Councils which are available on IPART's website.

September 2016 community satisfaction survey

The Department of Premier and Cabinet (DPC) commissioned JWS Research to undertake a community satisfaction survey in September 2016 on behalf of recently merged councils. The key focus area as identified by the MidCoast community in the JWS survey was *the condition of local streets and footpaths*. This survey is discussed in section 4.1 of this application.

November 2016 community survey - assets, environment & SRV proposal

Council commissioned Jetty Research to undertake a community survey to inform the proposed direction for addressing issues with funding of assets and the environment. This survey is discussed in section 4.1 of this application.

Non-democratic decision making process

Concern was raised in a few submissions that the decision whether to proceed with a special variation should be made by the new Council after the scheduled election in September 2017. Some community members perceive that a decision made by Council under Administration is non-democratic.

All three former Councils highlighted the need for special rate variations through the Fit for the Future process to address existing asset renewal/backlog issues and financial sustainability issues. The rate path for each of the three former Councils included rate variations between 20% - 49%. Significant community engagement had already been undertaken by each of these Councils pre-merger. When MCC was formed it was obvious from the work done by each of the former Councils that a critical initial priority would be the consolidation of the asset information and financial position to determine a sustainable future for our community.

In addition, both Great Lakes and Greater Taree City Councils had applied to the IPART for a special rate variation for 2016/17. Due to the timing of the announcement of the amalgamations, a formal determination on these applications was not made. The Gloucester region had two years remaining (2016/17 and 2017/18) of an approved 3 year x 13% special rate variation and had flagged their intention to their community to seek a further special variation once the current approval expired.

The community strategic plans of all three former Councils also highlighted the importance of both asset provision and the natural environment. This has been covered in detail in business paper for the Council meeting of 31 May 2017 (Attachment 19). Both Great Lakes and Greater Taree City Councils also had existing environmental levies, Great Lakes at 6% and Greater Taree at 5%. Gloucester did not have an environmental levy at the time of the merger.

If a decision on whether to apply for a special variation was held off until post-election, the unfunded renewal works (of $5M annually) would be put on hold and the $180M backlog would continue to increase, while road conditions would continue to deteriorate.

There would also be implications on harmonisation and extension of the environmental program to the Gloucester region, taking an 'all of catchment' approach as the current Environmental Levies for the Great Lakes and Manning regions may only be used in these regions in accordance with the formal determinations.

Affordability

Council is mindful of the impact that the special variation will have on ratepayers and in turn has proposed a modest variation that will still allow for improvement to the overall financial sustainability and the condition of local roads. At the same time, MidCoast continues to focus on finding efficiencies and savings through the merger, with $4.829M savings made in 2016-2017. However, it is not enough to provide the verified $5M on an annual basis that is required to fund the renewal of assets, let alone start to address the significant $180M backlog.

Council has identified ongoing savings and efficiencies from the merger and is exceeding the KPMG merger business case targets. These merger savings have been reallocated to the road and bridge network. Along with NSW Government merger funding through the Stronger Communities – Major Projects Fund, a $30million Roadcare Program has been developed. This is allowing for urgent renewal works to be undertaken, providing an immediate benefit to the community. However this does not address the annual $5M shortfall in funds required to meet asset renewal requirements.

The information below compares the average increase each year over a four year period of the current rate path (with the rate peg applied) to the proposed special rate variation (It should be noted that ratepayers in the Great Lakes and Manning regions already had Environmental Levies in their current rate path and Gloucester has another year of a 13% increase in its current rate path. Taking these into consideration is particularly relevant to the affordability issue):

Manning region

Current rate path equals an increase of **$28pa** for the average residential property.

With the proposed SV the average increase is $**59pa**. An increase of $**31pa** which equates to 59 cents per week (impact partially offset by the freeze in the waste charge)

Great Lakes region

Current rate path equals an increase of **$32pa** for the average residential property.

With the proposed SV the average increase is **$64pa**. An increase of **$32pa** which equates to 61 cents per week (impact partially offset by the freeze in the waste charge)

Gloucester region

Current rate path equals an increase of **$59pa** for the average residential property.

With the proposed SV the average increase is **$77pa**. An increase of **$18pa** which equates to 34 cents per week (impact partially offset by the freeze in the waste charge)

(Note: affordability is discussed further in section 5.2 of this application)

When the NSW Government was investigating the merger proposal for the merger of the three Councils it appointed Dr Ian Tiley to undertake the investigation process. Dr Tiley's final report made several recommendations which addressed the existing rate paths of the former three Councils and made comment on the special rate variation proposals. The recommendations included:

- Implementation of special rate variations as contemplated by each council would enhance the likelihood of improved service delivery
- That the NSW Government's proposed four year fixed rate path policy not be applied

Harmonisation of rates across the MidCoast area

Harmonisation of rates was addressed in the proclamations that formed the merged councils in May 2016 and. At that time it was stated that:

The rating structure is to be reviewed within the first term of the new council following the first election of the council

In the MidCoast Council area, the average rate across the various rating categories (residential, business, farming etc) varies by region (Gloucester, Great Lakes, Manning). During Council's initial round of community information sessions in June/July 2016, it was clear that harmonisation of rates was a priority for the community.

Council has since advocated with the Government for this policy to change to allow the complex harmonisation process to commence sooner, however the Government's position has not shifted and recent legislation confirmed that the harmonisation of rates cannot occur until 2019/2020.

Summary

Overall, the community has indicated support for Council's proposal through the statistically valid survey and at the community meetings. This is also evidenced by the small percentage of residents who have made written submissions to the Addendum of the DPOP.

The timing of the change in legislation, and the timing of the steps that MidCoast was required to undertake in order to apply for a special variation has raise some confusion in the community. However, it is a small percentage of residents that have voiced concern - and the primary reasons of that concern is the perception that Council is 'rushing' the process before the elections and perceived lack of community engagement. Affordability was also expressed as a concern to a small percentage of the community, although the statistically valid survey does not indicate this is a major issue (affordability is covered elsewhere in this application).

It should also be noted that during Council's community engagement in late 2016, the confusion and concerns about rushing the process and lack of community engagement were not evident at the community meetings, on social media or in the media reports. It seems to have become a focus for a small percentage of the community since the specific exemption was granted to MidCoast Council under the Rates - Merged Areas Bill.

Council has regularly provided information to assist in clarifying its position and the process specific for MidCoast Council. This is clearly explained in the Addendum to the DPOP for 2016-2017 and information is readily available on Council's website. Responses to relevant posts on Council's Facebook page are provided in a timely manner.

5 Assessment criterion 3: Impact on ratepayers

Criterion 3 in the Guidelines is:

> *The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Program and Long Term Financial Plan should:*
>
> - *clearly show the impact of any rises upon the community*
> - *include the council's consideration of the community's capacity and willingness to pay rates and*
> - *establish that the proposed rate increases are affordable having regard to the community's capacity to pay.*

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

5.1 Impact on rates

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

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

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

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

Council proposes that the increases arising from a successful special rate variation application will be applied evenly across the three existing rate structures. This means that the increase is being applied to base amounts, ad-valorum amounts and minimum amounts.

It should be noted that all NSW Councils have received a general revaluation that will take effect from 1 July 2017. This has been necessary to give a common baseline for the introduction, calculation and levying of the Fire & Emergency Services Levy (FESL) by the NSW Government (introduction now deferred). As a result of this revaluation there will be fluctuations in the level of increase or decrease that ratepayers receive in the first year of the proposed special rate variation. These fluctuations can be seen in the figures in Year 1 of the respective Worksheets 5b in Part A of this application.

Section 218CB of the Local Government Act 1993 provides that the Minister may make a determination that requires merged councils to maintain the pre-merger rate paths of the former councils. This includes the structure of rates, the categorisation and sub-categorisation of land for rating purposes, the calculation of notional general income for rating purposes and the treatment of variations to general income. The Proclamation creating Mid-Coast Council also required that the rating structures of the former councils were to be maintained at least until a new council had been elected.

Given the recent introduction of this section in the Act it is reasonable to assume that the Minister will make such a determination.

Council has interpreted this to mean that it is restricted from moving to harmonise the former rate structures into a single rate structure covering the entire new council area. As such the structures of the former councils have been and will be maintained until advice is received from the Office of Local Government that Council is able to commence the process of moving to a single rate structure. Under the existing special rate variation approval granted to the former Gloucester Shire Council it is noted that there was an intent to apply the first year increase (13%) differentially across their rating structure. This was to be reviewed in the second year to determine whether further differentiation of second 13% increase between categories was warranted. The intent of their application was that the final 13% increase would be applied evenly across all categories and sub-categories. The proposal contained within this special rate variation application would see the proposed 11% increase applied evenly across the former Gloucester Shire Council rate structure. This is in keeping with their intent for the final year of the existing approval (Note- the existing approved 13% increase is to be replaced with a 11% increase if this application is successful). The IPART would also be aware of the situation with non-urban land in the former Great Lakes area. The former council had a practice of not applying rate increases to that land with the difference allocated to the Business and Mining categories. In the current environment Council does not believe that it can continue with this former practice and as such the non-urban land within the former Great lakes area will also be subject to the rate peg or approved variation. The 3 X Worksheet 5b contained within Part A of the application have been based on using the sub-category that had the most assessments for each category. This was necessary given the differential rating structure of the 3 former councils.

5.1.1 Minimum Rates

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

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

Does the council have minimum Ordinary rates? Yes ☒ No ☐

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

The rate peg percentage ☐
The special variation percentage ☒
Another amount ☐ Indicate this amount ____________

What will minimum Ordinary rates be after the proposed increase? $325.99 in 2017/2018

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

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

There is minimal impact on the number of properties subject to the minimum rate as a result of the special rate variation. Minimum rating is used within the former Greater Taree City Council rate structure in the Business category. There are a total of 2,668 properties within this category (which is sub-categorised) of which 200 pay the current minimum rate of $307.87. This will decrease by 1 to 199 properties under the special variation proposal with the minimum rate increasing to $325.99.

As discussed in the previous section Council is of the opinion that it is required to maintain the existing rate structures and as a consequence apply any increase evenly across the 3 former rate structures. This means that the minimum rate should also increase by the approved percentage.

It is also noted that the current minimum rate is lower than any of the base rates currently applying to any category across the three former rating structures. This means that there is an inequity between how low valued properties are rated across the former council areas. This cannot be addressed in the current environment however to not increase the minimum rate (which is well below the statutory limit) is to further increase the differential that currently applies to low valued properties across the council area.

5.2 Consideration of affordability and the community's capacity and willingness to pay

The council is required to provide evidence through its IP&R processes, and in its application, of how it assessed the community's capacity and willingness to pay the proposed rate increases. This is to include an explanation of how the council established that the proposed rate rises are affordable for the community.

Evidence about capacity to pay could include a discussion of such indicators as SEIFA rankings, land values, average rates, disposable incomes, the outstanding rates ratio and rates as a proportion of household/business/farmland income and expenditure, and how these measures relate to those in comparable or neighbouring council areas.

As many of these measures are highly aggregated, it may also be useful to discuss other factors that could better explain the impact on ratepayers affected by the proposed rate increases, particularly if the impact varies across different categories of ratepayers.

We may also consider how the council's hardship policy (see Section 5.3 below) might reduce the impact on socio-economically disadvantaged ratepayers.

The former Councils of Great Lakes and Greater Taree City Council respectively assessed the affordability of the rate increase for 2016/17 which due to the merger could not proceed. Gloucester at the time of merger was one year into a 3 x 13% approved SV and intended to apply for a further 3x13%. All Council's recognised the socio economic make-up of the area and were conscious of limiting rate increases to an affordable level. The proposed SV is at the same level proposed by the former Great Lakes and around half the increase proposed by the former Greater Taree City and Gloucester Shire Councils. In addition Council has frozen the domestic waste charge for a period of 3 years which represents a saving of $120 (based on pre- merger projected increases) over 3 years for residential ratepayers who pay the waste charge. This has been achieved through merger efficiencies and assists the affordability of the proposed SV.

Council assessed the community's willingness to pay higher rates through the Community Survey on Asset Service Levels and SV proposal conducted in November 2016 with specific questions designed to gauge support. Those results and detailed commentary is provided in the section on community feedback above. That survey concluded that there was a willingness to pay additional rates for the purposes sought in this application, at the rate proposed or at a slightly lower level.

Council is extremely aware of the socio-economic make-up of its community. It knows that it has a high proportion of fixed income retirees that are either self-funded or receiving support from the Federal and State Government and that this section of the community is projected to increase in size as a percentage of the overall population. It is also aware that its SEIFA Index rating indicates that it is significantly disadvantaged in comparison with many other local government areas.

Council has no better example of this than its own Ageing & Disability Services section which receives approximately $3 million per annum from State & Federal Government departments to provide services to our community members. It also knows that our coastal areas have been identified as a Dementia 'hot spot' whereby our community members (by reason of our demographic) will be diagnosed with such illnesses at a rate greater than the state or regional expectations. This will put additional demands on Council to be ready with facilities and services to provide the required level of community support.

This understanding makes the conversation with the community about a special rate variation difficult given that the average person does not want an increase in rates but that they do want (and will need) better infrastructure, facilities and services.

However it is taking action (outlined in Section 7) to achieve increased productivity and become a more efficient organisation. It is already holding its domestic waste management charges steady for 3 years to lessen the impact of the proposed increases. Both of these actions increase the value of the proposal to the community. The community also regularly rates the condition of roads as its highest priority.

The figures contained within Worksheets 5a and 5b in Part A of this application show the impact of the special variation proposal on the average rate across categories, sub-categories and valuation ranges.

Through its interaction with its community Council believes that the community is able and willing to pay this additional amount in return for the program of works proposed by this application.

Council has spent a considerable amount of time understanding its budget and identifying the revenue required to provide the level of services agreed with our community. It should be noted that these are not 'gold-plated' service levels. Our aim is 'fit for purpose' assets with the adopted levels for roads as either fair or poor depending on usage and other factors. Our challenge is to ensure we are funding our asset renewal requirements to ensure we get maximum asset life from our road network, and we don't allow the significant percentage of roads in condition 3 (fair) slip into condition 4 (poor) or 5 (very poor).

Our financial projections indicate that with a small special variation we will be financially sustainable for the longer term and will be addressing our infrastructure responsibilities as and when they occur. This would indicate that the average rate that would allow for that to occur would be the appropriate average rate for our Council irrespective of what the average rate for other councils might be.

While complex to explain in the merger situation due to the need to retain rate structures of the former councils across the new MCC area (as required by the merger proclamation) it is important to compare the proposed SV with the rate paths which would apply without the SV. This is particularly relevant as both the Great Lakes areas and the Manning areas have environmental levies in their current rate path and Gloucester has another year of a 13% increase in its current rate path. Taking these into consideration is particularly relevant to the affordability issue:

Manning region

Current rate path equals an increase of $28pa for the average residential property.

With the proposed SV the average increase is $59pa. An increase of $31pa which equates to 59 cents per week (impact partially offset by the freeze in the waste charge)

Great Lakes region

Current rate path equals an increase of $32pa for the average residential property.

With the proposed SV the average increase is $64pa. An increase of $32pa which equates to 61 cents per week (impact partially offset by the freeze in the waste charge)

Gloucester region

Current rate path equals an increase of $59pa for the average residential property.

With the proposed SV the average increase is $77pa. An increase of $18pa which equates to 34 cents per week (offset by the freeze in the waste charge)

Note: The above figures are based on a 2.5% rate peg which was the expected rate peg at the time of Council's consultation with the community.

5.3 Addressing hardship

In addition to the statutory requirement for pensioner rebates, most councils have a policy, formal or otherwise to address issues of hardship.

Does the council have a Hardship Policy?	Yes X	No ☐
If Yes, is an interest charge applied to late rate payments?	Yes X	No ☐
Does the council propose to introduce any measures to reduce the impact of the proposed special variation on specific groups in the community?	Yes ☐	No X

You should attach a copy of the Hardship Policy and explain below who the potential beneficiaries are and how they are assisted.

Please provide details of any other measures addressing hardship to be adopted, or alternatively, explain why no measures are proposed.

The council is also to indicate whether the hardship policy or other measures are referenced in the council's IP&R documents (with relevant page reference or extract provided).

The Hardship Assistance Policies of the three former Councils remain in operation. These are applied in the three former Council geographic areas and align with the retention of the current rating structures of the former areas which remain in place as part of the merger proclamation. The objectives of all three Hardship Assistance Policies are to provide assistance to ratepayers suffering substantial financial difficulties with the payment of rates and charges and to provide an administrative process to determine applications for financial assistance.

The Policies outline the avenues available to a ratepayer experiencing financial difficulties to seek relief or assistance under the Local Government Act. These include making arrangements with Council for the repayment of outstanding rates and charges, the writing off of accrued interest, the extension of the pensioner concession, the abandonment of rates and charges and the hardship resulting from valuation changes.

The Policies provide for applications for hardship to be considered by a staff committee and provides discretion for the deferral of rates and granting, extended repayment arrangements.

Council's preference is to hold early discussions with ratepayers who may be starting to experience financial difficulties so as to establish repayment arrangements. Through having an established recovery process, these conversations can be occurring after a ratepayer has missed 2 instalment payments - well before considerable arrears have accumulated.

The success of this approach is evidenced by the relatively low outstanding rates percentage and the minimal number of applications that Council receives to access Hardship Assistance.

On that basis Council is not proposing any further measures to address hardship.

Council's Hardship Assistance Policies (Attachment 7) is referenced in its Delivery Program / Operational Plan as follows:

Great Lakes Area - Statement of Revenue Policy Section page 66

Gloucester Area - Statement of Revenue Policy Section page 54

Manning Area - Council’s Financial Hardship (Rates and Charges Relief) Policy is available to the public on Councils website.

6 Assessment criterion 4: Public exhibition of relevant IP&R documents

Criterion 4 in the Guidelines is:

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

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

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

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

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

There is a suite of IP&R documents relevant to the proposal to apply for a SRV. Some of these documents have been developed as MidCoast Council and some are from the previous three Councils. These are detailed in the table below.

In regards to Council's requirements to integrate IP&R documents and the status of those documents:

- **Community Strategic Plan**

As a merged Council the requirement to have a CSP is fulfilled by the CSPs of the former Councils. Notwithstanding, all 3 former regions identified assets and the environment as priorities in the respective CSPs and that is reflected in the current planning for the MidCoast area. Extracts from each of the CSPs are provided in Part 4 of this application.

- **Delivery Program/Operational Plan (DPOP) & Addendum**

Immediately following the merger, Council placed on public exhibition and then adopted a combined DPOP. This document was in line with Department of Premier & Cabinet guidelines and was essentially the 2016-2017 Plans of each of the three regions, with a consolidation statement that discussed the early stages of integration of MCC (details of exhibition and adoption included in table below).

As discussed previously, a Bill was passed to amend the Local Government Act to freeze the rate paths of merged Councils. The Bill included a provision that provided exemption for MCC. MCC proceeded to confirm the requirements that would allow them to lodge a SV based on the extensive community engagement that had already been undertaken in 2016.

It became evident that although all three former Councils were on a rate rise path, it was necessary to develop and exhibit an Addendum to the current 2016-2017 DPOP. Details of the exhibition and adoption of this document are included in the table below.

- **Long Term Financial Plan**

An integrated Long Term Financial Plan that includes initial savings and efficiencies for MCC is available on Council's website (Attachment 3).

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

- **Asset Management Strategy & Asset Management Plan**

The current status of these documents is discussed previously in this application. The Morrison Low strategy that has been utilised to inform a way forward for MCC is available on Council's website and included as Attachment 10, p 1-8.

The table below represents the IP&R documents relevant to the MCC proposal to apply for a SRV. Details of each region's previous SV applications can be found in the IP&R documents for each of the former Councils. This information has not been included in this application however contributes to the history of underfunding of assets and the importance that each community places on assets and the environment.

IP&R document	When exhibited	When adopted/ endorsed*
Delivery Program Operational Plan 2016-2017 (MCC)	22 May - 22 June 2016	29 June 2016
Addendum to Delivery Program Operational Plan 2016-17 (MCC)	1 May - 29 May 2017	Adopted 31 May 2017
Community Strategic Plan (Great Lakes)	Oct & Nov 2012; February & March 2013	Endorsed 25 June 2013
Community Strategic Plan (Manning)	April 2010	June 2010
Community Strategic Plan (Gloucester)	Early - mid 2012	June 2012
Community Strategic Plan - review (Gloucester)	March-April 2013	May 2013
** Where a document was adopted/endorsed/noted by Council, the minute of that action is included as Attachment 12, 20*		

7 Assessment criterion 5: Productivity improvements and cost containment strategies

Criterion 5 in the Guidelines is:

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

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

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

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

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

All three former Council's had been on a path of productivity and cost containment using different means and methodologies. The 2016/17 SV applications from Great Lakes and Greater Taree City referenced past productivity improvements and future plans. Future productivity improvements are now part of MidCoast Council's strategy to develop a sustainable well performing council.

MidCoast will also measure its performance against the Stronger Councils Framework for merged Councils (Attachment 21). Council is also required to report to DPC/OLG through the Benefit Capture tool for a ten year period as well as other regular reporting to DPC/OLG as part of the merger. Council is also actively involved in the PwC Local Government Performance Excellence benchmarking project.

Merger Related Savings

As a merged Council MCC is participating in the NSW Governments Benefits Realisation Project where merger benefits will be captured and reported over a ten year period. Currently after one year of existence MCC has identified the following savings (ongoing unless stated otherwise) for 2017/18 which have been included in the 10 year forward projections:

- Salary savings - $1.75 Million (further salary savings are predicted once the 3-year job protections for staff of merged Councils have been lifted)
- Material contracts and other savings (consolidation of mobile phone bills - $50,000, recruitment costs - $31,000, insurance premium savings $599,000); total of $679,000
- Governance savings from mayoral and councillor allowances and expenses - $352,000
- Plant hire fee savings through utilisation of plant across the LGA - $75,000
- Combined audit fees and expense savings - $45,000
- Discontinuing of MIDROC membership (MCC is a member of HROC) - $75,000
- Consolidation of contracts for electricity supplier - discounted rate from .9cents/kw to .6cents/kw.

- Group tender process for provision of asphalt will see a 5%-6% reduction in cost from a $10M expenditure; savings projected to be $500,000 - $600,000
- One-off savings in plant reserve fund - $1.8M

As Council continues to review and integrate services it is expected that other significant financial benefits will be realised. The initial savings realised through the merger have been re-invested in provision of a $30M Roadcare program discussed in sections 2.2 & 3.2 of this application. As part of Council's commitment to this program and to the community, savings realised over the next few years will continue to be utilised to support the delivery of this program.

Service Review

Council has also worked with Morrison Low to develop a Service Review methodology and this is currently being implemented to enable the new Council when elected in September 2017 to review services and make evidence based decisions on delivery options.

Corporate Strategy Office

Since formation Mid Coast Council has taken a strategic approach to setting the new Council up for success. A critical component of this is to constructively develop the people resources within MCC and align strategy with actions. This includes the development of a positive organisation culture and values.

Structurally this has been supported by the establishment of a Corporate Strategy Office (CSO) within the organisational structure. The CSO partners with Council's Leadership and Management team and the broader MCC organisation to support the development and implementation of key strategic initiatives aimed at delivering services to meet the needs of the local community. The CSO supports all parts of MCC's operations to address critical business challenges.

The functions of the CSO take an 'all of us' perspective, working across the organisation and linking organisational activities to our customers and the broader community. The CSO supports the ability of the organisation to innovate, develop and adapt as it navigates through times of uncertainty, ambiguity and change.

In addition the CSO will guide and support the development of a set of skills, tools, and capabilities which support all of MCC's operations to achieve positive business results.

Specific focus areas include:

- Application of the Australian Business Excellence Framework
- Corporate Development Program at individual, team, divisional and organisational level (see Attachment 22 for additional detail)

- Corporate projects

- Integrated Planning & Reporting (IP&R) including organisational alignment that reflects community priorities

- Project Management Office (PMO) to facilitate and support merger and integration activities

- Business process improvement to support teams in working 'on' the business in integration of processes and ensuring efficiencies and continuous improvement in delivery of services (including tools such as Agile, Lean, and Promapp)

- Corporate performance measurement framework

- Staff engagement and communications with a focus on corporate strategy and initiatives

- Building and facilitating relationships and partnerships across the organisation; promotion of inter-team, divisional and organisational approaches and thinking

A key component of the CSO and its functions is based on seeking multiple sources of advice, information, and perspectives, including external experts and sources.

The CSO will support MCC’s operating philosophy which is to function with an “all of us” perspective across the organisation. This means focusing on internal and external customers across the business using a team based approach to achieve positive outcomes.

To support the CSO and Corporate Development Program (CDP), MCC will apply Our Integrated Approach (based on Integral theory and practice) together with the Australian Business Excellence Framework (ABEF) to guide strategy implementation, decision making and good business practice. Consistent with Our Integrated Approach, the ABEF is an integrated framework designed to develop people and organisations.

There is empirical evidence that demonstrates a positive ROI by investing in positive people and culture development. The costs of a limiting or poor culture are shown to affect:

Staff Turnover
Rework
Wastage
Stress

Conservatively the costs of this are around 30%. MCC's strategy is to invest in this as the new organisation develops to achieve productivity improvements and minimisation of wastage.

8 List of attachments

The following is a list of the supporting documents to include with your application.

Some of these attachments will be mandatory to all special variation applications (eg, extracts from the Community Strategic Plan).

Other attachments will be required from some, but not all, councils. For example, extracts from the Asset Management Plan would be required from a council seeking approval of a special variation to fund infrastructure.

Councils should submit their application forms and attachments online through the Council Portal in the following order. Councils may number the attachments as they see fit.

Item	Included?
Mandatory forms and Attachments	
Part A Section 508A and Section 508(2) Application form (Excel spreadsheet)	X
Part B Application form (Word document) – this document	X
Relevant extracts from the Community Strategic Plan	X
Delivery Program	X
Long Term Financial Plan with projected (General Fund) financial statements (Income, Cash Flow and Financial Position) in Excel format	X
NSW Treasury Corporation report on financial sustainability	X
Media releases, public meeting notices, newspaper articles, fact sheets relating to the rate increase and proposed special variation	X
Community feedback (including surveys and results if applicable)	X
Hardship Policy	X
Resolution to apply for the proposed special variation	X
Certification (see Section 9)	X
Other Attachments	
Relevant extracts from the Asset Management Plan	X
Past Instruments of Approval (if applicable)	X
Resolution to adopt the revised Community Strategic Plan (if necessary) and/or Delivery Program	X
Other (please specify) - Local Government Amendment Bill 2017 - OLG Addendum Guidelines - Community Engagement Strategy - SRV - IPART FFtF assessments - Community presentations - MCC website sample material - Addendum to DP/OP & associated business papers - Minutes of IP&R document endorsement/adoption - Stronger Councils Framework - CDP map	X

9 Certification

APPLICATION FOR A SPECIAL RATE VARIATION

To be completed by General Manager and Responsible Accounting Officer

Name of council: Mid-Coast Council

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

Interim General Manager (name): Glenn Handford

Signature and Date:

Responsible Accounting Officer (name): Phil Brennan

Signature and Date:

Once completed, please scan the signed certification and attach it as a public supporting document online via the Council Portal on IPART's website.