

DUNGOG SHIRE COUNCIL

SECURING OUR FUTURE

Special Rate Variation Proposal 2019/2020

A message from Council's Mayor and General Manager

As a community it is important for us to discuss the long term financial sustainability of Dungog Shire Council in response to the NSW State Government's Fit for the Future (FFF) reform package. Part of this conversation needs to focus on the potential for a Special Rate Variation (SRV).

We acknowledge that a SRV is never popular and there are few people who would say they want to pay more in rates. However, it is important to understand why a SRV is being considered and what it could achieve for the Dungog Shire.

As part of the reform agenda all NSW councils are required to meet or be working towards achieving the seven (7) indicators that measure financial sustainability.

Dungog Shire Council was identified as "not fit" under the Independent Local Government Review Panels (ILGRP) process and as a result has now been invited to lodge a Reassessment Proposal addressing how Council intends to meet the seven (7) key performance measures. Council is responding to this task by reviewing and implementing an Improvement Proposal. There are a number of reasons why we have a funding shortfall, dating back to the introduction of the state government's rate pegging policy in the early 1970's and rate relief that was provided by Dungog Shire Council in the 1980's.

While the cost of delivering services to our community has increased significantly, the rate peg (estimated at 2.5%) has capped Council's ability to raise enough revenue in line with increasing expenses. Some of these costs have come about as a normal part of running a business, such as electricity and insurance cost increases through to increased material and equipment costs. However, some of these increased costs are a result of the State Government shifting responsibility for particular services onto Local Government, such as the Swimming Pool Register and inspection program and the

historical transferal of roads considered to be of "secondary importance" from State Government to Council. Dungog Shire Council is unique in having no State Government classified roads. Further, the age and condition of some Council's assets, such as our timber bridges, is also problematic and is resulting in considerable annual maintenance costs for Council.

We are restricted as to how we can raise revenue to operate and with rising costs, and with limited and often at time inequitable State and Federal Government funding, significant pressure is now being placed on our bottom line.

Council is committed to implementing its Improvement Plan, which includes a proposed SRV, and working towards meeting the benchmarks set by the NSW State Government under the FFF reform agenda. Council is working on productivity improvements and cost containment strategies. Examples of this work include sharing services with neighbouring councils (eg: our library service is provided in partnership with Newcastle City Council), a review of non-performing assets for disposal, seeking external grants to assist with service provision (eg: \$3.8M in grant funding for our bridges), implementing new processes to re-use road material to reduce the importation of quarry materials, and improved procurement approaches (eg: tendering in conjunction with neighbouring councils to achieve better cost outcomes for electricity provision)

In February 2018 Council invited all members of the Dungog Shire community to attend a series of meetings developed to inform ratepayers of Council's current financial position and the need for Council to consider applying for a SRV.

At these public meetings, members of the community were given the opportunity to participate on a Special Rate Variation Reference Panel. The Panel applicants attended three (3) additional meetings and were provided with further, more in

depth information. The Panel's role was to work with Councillors and staff to develop a SRV proposal for further community consultation and to provide input into Council's application process to IPART for a SRV.

As a result of our community meetings, feedback from Reference Panel meetings, and input from Councillors and staff, Council is now considering the below tapered scenario in relation to the SRV:

- Year 1 & 2 = 15% (2.5% rate cap plus 12.5% SRV)
- Years 3, 4 & 5 = 10% (2.5% rate cap plus 7.5% SRV)
- Years 6 & 7 = 6% (2.5% rate cap plus 3.5% SRV).

Over the month of July Council held a further six (6) community meetings presenting the tapered scenario. Attendees at the meetings have been very engaging and a lot of useful feedback has been provided for Council to further consider. Any additional feedback would be most welcome via our email address SRV@dungog.nsw.gov.au. It would also be greatly appreciated if you could fill out the enclosed survey and get it back to Council in the replied paid envelope provided. Another opportunity to provide feedback will also be provided when Council places on public exhibition our IPART corporate documents (Community Strategic Plan, Delivery Programme and Operational Plan). While Council has resolved to investigate a special rate variation to address Council's infrastructure backlog Council has not made a decision on the SRV increase and will not do so until towards the end of the year taking into account your feedback. Updates regarding the SRV proposal can be found on Council's webpage at www.dungog.nsw.gov.au. Thank you for considering this matter.

TRACY NORMAN Mayor
CORALIE NICHOLS General Manager

What are the challenges we face?

- ⇒ Small population base with large road network greater than 720km.
- ⇒ Inequities in Financial Assistance Grant and Block Grant allocations for smaller councils
- ⇒ Many grants required \$ for \$ matched funding
- ⇒ Disadvantaged in many road grants because they are based on traffic volumes (***not*** heavy vehicle movements) and population, we struggle to compete with larger councils.
- ⇒ We are the only Local Government area with no State Roads
- ⇒ Ageing Timber bridge network not designed to withstand modern heavy vehicle loadings.
- ⇒ Currently unable to fund depreciation
- ⇒ We currently don't meet the Office of Local Government financial and asset management criteria

What have we done to be more efficient?

The consideration of a special rate variation is only one of a number of options Council is considering in order to improve our overall financial performance and better manage and maintain infrastructure. These are some of the initiatives Council has or is undertaking to become more efficient:

- ✓ Human resourcing savings (Councillors only accept the minimum State Government mandated remuneration allowance, reductions in the Council workforce, saving in workers compensation & staff learning/development)
- ✓ Undertake a review of assets with a view to rationalisation.
- ✓ Energy Efficiency Initiatives (Solar and other green initiatives, etc)
- ✓ Transitioning from paper to electronic communication channels
- ✓ Successfully sourcing additional grant revenue
- ✓ Sharing services with other Hunter Councils in areas such as library services, weed management, records storage, legal services, regional procurement, environmental services, etc.
- ✓ Completion of new Section 94 Plan
- ✓ Extended the life of our landfill by increasing recycling and diversion rates.
- ✓ Service review to be undertaken.
- ✓ Implementing best practice maintenance management system for infrastructure maintenance.
- ✓ Completion of the Rural Land Use Strategy
- ✓ Investigations are underway in relation to potential strategic alliance options with other Hunter Councils.
- ✓ Annual review of Fees and Charges
- ✓ Savings from contract negotiations (Waste Management, print services, regional procurement etc)
- ✓ Asset Management Plans have been developed to identify future needs.
- ✓ Council has the second lowest workforce numbers of any Group 10 Council and the lowest Population/Equivalent Full Time Staff numbers of any Group 10 Council.

What impact would a SRV have on me?

A Special Rate Variation Estimator is available on Council's website at

www.dungog.nsw.gov.au/council/special-rate-variation.

This Estimator will provide you with your rates estimate for the seven (7) years of the SRV.

Simply open the Estimator, input your Rateable value from your rates notice and follow the instructions.

How would a SRV help us meet our infrastructure obligations?

Scenario without SRV	Target	Possible scenario with proposed SRV
Regional Roads		
◇ Rehabilitation every 111 years	◇ Rehabilitation every 30 years	◇ Rehabilitation every 47 years
Local Sealed Roads		
◇ Rehabilitation every 115 years	◇ Rehabilitation every 30 years	◇ Rehabilitation every 51 years
Timber Bridges		
◇ 50 year replacement program reliant on grants	◇ 20 year renewal program funded	◇ 20 year renewal program funded
Buildings		
◇ 63% of required funding and reliant on grant funding for upgrades	◇ 100% of required funding to maintain and upgrade requirements also funded	◇ 80% of required funding and some capacity to fund upgrade requirements
Urban Stormwater		
◇ 19% of required renewals and infrastructure failure	◇ 100% of required funding to maintain and upgrade requirements also funded	◇ 45% of required renewals but no funding for upgrades
Parks and Reserves		
◇ 50% of required renewals and loss of service and amenity	◇ 100% of required funding to maintain and upgrade requirements also funded	◇ 65% of required renewals and maintained service levels and minor loss of amenity

What is the difference between Maintenance and Capital Rehabilitation/Reconstruction?

Maintenance

Expenditure on an asset which maintains the asset in use but does not increase its service potential or life, e.g. repairing a pothole in a road, repairing the decking on a timber bridge, repairing a single pipe in a drainage network, repair work to prevent early failure of an asset.

Capital Rehabilitation or Reconstruction

Expenditure on renewing an existing asset or a portion of an infrastructure network which increases the service potential or the life of the asset up to which it had originally, e.g. rebuilding a section of road, road pavement stabilisation, renewing a section of a drainage system, major works to the structure of a bridge, etc. When an asset is rehabilitated or reconstructed the maintenance costs for the asset reduce significantly.

FAST FINANCE FACTS

INCOME/REVENUE

<p>What does Council collect annually in rates?</p> <p>The Notional General Yield for 2018/2019 in general rates is \$5,670,327</p> <p style="text-align: center;">TOTAL: <u>\$5,670,327</u></p>	<p>What fees does Council expect to receive in 2018/2019?</p> <ul style="list-style-type: none"> * Development Application fees: \$95,000 * Building Inspection fees: \$46,000 <p style="text-align: center;">TOTAL: <u>\$141,000</u></p>		
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COSTS/EXPENDITURE

<p>What fees/levies does Council have to pay?</p> <ul style="list-style-type: none"> * Annual membership to Local Government NSW as a peak body: \$26,000 * Annual membership to Hunter Councils Inc: \$24,000 * Lower Hunter Rural Fire Service Zone payment: \$287,342 * SES Contribution: \$22,000 * Valuer General Fees: \$39,000 * Annual Auditor Fees: \$43,000 <p style="text-align: center;">TOTAL: <u>\$441,342</u></p>	<p>What is the annual cost for Council to purchase and maintain plant (i.e. graders, rollers, loaders, trucks, etc)?</p> <ul style="list-style-type: none"> * Plant purchases: \$1,002,000 * Fuel and oil: \$332,000 <p style="text-align: center;">TOTAL: <u>\$1,334,000</u></p>		
<p>What are Council's 2018/2019 loan repayments?</p> <p>Council currently has loans with the National Australia Bank that are payable at \$330,000 p/a</p> <p style="text-align: center;">TOTAL: <u>\$330,000</u></p>	<p>What is the annual cost of insurance for Council?</p> <ul style="list-style-type: none"> * Workers Compensation Insurance: \$100,000 * Council's insurance fee for fleet, buildings, risk etc: \$390,000 <p style="text-align: center;">TOTAL: <u>\$490,000</u></p>		
<p>What does Council pay for street lighting?</p> <p>Street lighting expenditure in the last financial year (2017/2018) was \$95,574 payable to ERM Business Energy.</p> <p style="text-align: center;">TOTAL: <u>\$95,574</u></p>	<p>What does the up-keep of roads and bridges cost Council each year?</p> <p>In 2018/2019 Council will spend \$2,803,000 on roads and bridge maintenance</p> <p style="text-align: center;">TOTAL: <u>\$2,803,000</u></p>		
<p>What does Council spend on sport and recreation? (Note: figures include depreciation, but not wages)</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> <ul style="list-style-type: none"> * Council spends \$320,000 on park maintenance per annum * Council spends \$390,000 on pools per annum * Council spends \$165,000 on caravan parks per annum </td> <td style="width: 50%; border: none;"> <ul style="list-style-type: none"> * Council spends \$388,000 on sporting grounds per annum * Council spends \$125,000 on the library service per annum * Council spends \$45,000 on cemetery maintenance per annum </td> </tr> </table> <p style="text-align: center;">TOTAL: <u>\$1,433,000</u></p>		<ul style="list-style-type: none"> * Council spends \$320,000 on park maintenance per annum * Council spends \$390,000 on pools per annum * Council spends \$165,000 on caravan parks per annum 	<ul style="list-style-type: none"> * Council spends \$388,000 on sporting grounds per annum * Council spends \$125,000 on the library service per annum * Council spends \$45,000 on cemetery maintenance per annum
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