

16.4 SPECIAL RATE VARIATION (SRV)

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- Attachments:**
1. **Draft Revised Long Term Financial Plan 2023-2034 Including Capacity to Pay Report (separately enclosed)**
 2. **Draft Revised Delivery Plan 2022-2026 (separately enclosed)**
 3. **SRV Background Paper (separately enclosed)**
 4. **Organisational Sustainability Review and Improvement Plan (separately enclosed)**
 5. **Community Engagement Strategy (separately enclosed)**

Link to Community Strategic Plan:	25. Our Civic Leadership CL1 Effect resourceful and respectful leadership and attentive representation of the community.
Cost to Council:	Nil
Use of Reserve Funds:	Not Applicable

RECOMMENDATION

That

1. Council endorse the revised 2023-34 Long Term Financial Plan for public exhibition and community consultation until 3 November 2023
2. Council endorse the revised Delivery Plan for public exhibition and community consultation until 3 November 2023
3. Council endorse the undertaking of community consultation on a potential application to the Independent Pricing and Regulatory Tribunal (IPART) for a proposed permanent Special Rate Variation (SRV) of either a one year SRV of 43.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) or a two year SRV of 25.5% in 2024-25 (including the forecasted rate peg of 3.5 per cent) and 20.5 per cent in 2025-26 (including the forecasted rate peg of 2.5 per cent), representing a cumulative Special Rate Variation of 51.2 per cent over two years. These proposed increases would apply to the minimum rates in Council’s rating structure.
4. Receive a further report at its meeting on 21 November 2023 regarding community consultation undertaken to determine any final application to be made to IPART for a Special Variation.
5. Council notify IPART of its intention to invite community feedback on two SRV options and its intention to apply for an SRV.

BACKGROUND

The 2022-32 Long Term Financial Plan (LTFP) was adopted by Council in December 2022 after a 28-day public exhibition period where community engagement was sought. With its adoption, Council resolved undertake a thorough review of the LTFP as part of the 2023-24 Operational Plan preparations. It was identified in the LTFP that, while no provision was made in the LTFP for a Special Rate Variation, the document needed a thorough review to take into consideration updated asset information and other factors and that “It is anticipated that the outcome of this assessment may drive the need for Council to consider the need for a SRV for the 2024-25 financial year.”

Council subsequently engaged Morrison Low to undertake an independent financial assessment, including an organisational review to identify financial improvements that could improve value for ratepayers and minimise any SRV that might be required.

The Morrison Low assessment forms the financial modelling included in the updated draft 2023-33 long term financial plan, including an assessment of the SRV options.

REPORT

Morrison Low have presented their independent financial assessment of Council and identified that without intervention:

- the average operating deficit for the 10-year forecast period is estimated at \$10.7 million per annum.
- the general fund has insufficient money to maintain service levels or asset renewals at levels the community requires.
- inadequate infrastructure renewal will result in the degradation of community infrastructure.
- under funding for expected growth and expanded services required for the growing population.

The Morrison Low assessment identified the contributing factors to the structural financial deficit noting that growth in core costs have outpaced growth in revenue. They noted the fundamental flaw in the income and cost structures for NSW local government affecting all NSW Councils. Costs to maintain community infrastructure and services are more than the revenue that local government receives.

All the financial scenarios that were assessed for inclusion in the LTFP include additional financial savings measures, one-off cash injections from the sale of property and ongoing efficiency targets. In addition to the productivity improvements that have already been implemented and that are ongoing, Morrison Low undertook an Organisational Service Review to identify additional financial improvements to improve value for ratepayers and minimise the SRV. The review identified several efficiency savings that Council has already begun to implement and has identified further opportunities including a future program of detailed service reviews to prioritise ongoing improvement and future efficiency savings.

Council has considered and ruled out the reduction and/or removal of community services and community infrastructure as a potential savings measure.

Long Term Financial Plan (LTFP)

In refining its LTFP Council engaged Morrison Low to provide an independent financial model and analysis. The outcome of this modelling is an ongoing deficit averaging \$10.7M per annum. For Council's financial sustainability and to avoid a risk of unplanned service reduction, this must be addressed.

Council has updated its LTFP to include and show the impacts of both the Business as Usual (BAU) – no change scenario, and the two SRV options as a solution to the revenue shortfall.

The 2 financial sustainability options to be discussed with the community are as follows:

1. A proposed one-off SRV of 40.00% in addition to the rate peg. Including the rate peg, this amounts to a rates increase of 43.5%. Including an assumed 2.5% rate peg in year 2, this amounts to a cumulative increase of 47.1% at the end of 2 years; and
2. A 2-year SRV option averaging 20% over 2 years (22% and 18%) in addition to the rate peg. Including the rate peg, this amounts to a cumulative increase of 51.2% at the end of 2 years.

Of the above scenarios, the **Proposed one-off SRV** is the preferred option as it balances Council's sustainability needs with having a lower overall increase in rates for household budgets through implementing the SRV. However, Council will determine, following the community consultation, which option to apply to the Independent Pricing and Regulatory Tribunal (IPART) for a permanent cumulative rate increase from 01 July 2024. If secured, this SRV would assist Council in maintaining surpluses, meeting operating expenditure, and ensuring sufficient investment in infrastructure.

All of the options include an allowance for additional service and infrastructure improvements, including:

- Increased asset renewal spends of approximately \$6M per annum from 2024/25 and onwards for roads, stormwater and buildings.
- Increased resources for the maintenance of Council's facilities including parks and sporting fields.
- Additional staff resources to meet the demands of a growing community.
- Funding the future rehabilitation of Council's Waste Management Centres in the amount of \$1.25m per year

Community Engagement Plan

The objective of community engagement is to ensure that the community is adequately informed and consulted about both the need for and impact of the proposed SRV. It outlines the community engagement process including the following:

- The proposed engagement approach, to inform and consult on the SRV proposal to provide the community with information and to facilitate feedback.
- The processes to build community awareness and information, through factsheets, media releases, webpage, and other communication methods.
- The processes of formal consultation, being the exhibition of draft documents, face to face meetings and online submissions
- The key audience, being all ratepayers and other stakeholders.
- Engagement methods, to reach a wide range of stakeholders and provide access to information and feedback mechanisms.
- Key messages, including legislative requirements, Council's financial sustainability and how to seek further information and provide feedback.
- Other key information, including details such as why the SRV is needed, SRV options and the potential increases for ratepayers under the SRV.
- Reports being the Engagement Report and Council Report, to document the engagement process and its outcomes. These will inform the Elected Council in determining whether to progress with an application to IPART for the SRV.
- Monitoring and risk, an overview of the risks with community engagement.

The process will ensure that engagement targets a wide range of community segments and to engage directly with community members across the local government area, in their own forums.

The community engagement process will use a variety of techniques and media and provide comprehensive information so that by the end of the consultation period, the community feel they had been well informed and were able to express their views about the financial sustainability decisions facing Council.

This Community Engagement Plan is supported by the following detailed action plan, including engagement activities, and will produce a summary report of the engagement outcomes for Council's consideration.

Timeframes	Responsibility	Community Engagement Activity
20 September 2023 – 3 November 2023	Council	7 weeks community engagement activity: <ul style="list-style-type: none"> • Community Drop-In Sessions. • Media Release. • Social Media. • Council Website / options / analysis / reports / FAQs. • Letter sent to all residents. • Online Submissions open. • Information provided through Mayoral Radio Interviews. • Awareness through Council’s weekly Goulburn Post Advertisements. • Radio Commercials on Eagle FM and GNFM.
21 November 2023	Council	<ul style="list-style-type: none"> • Receive report on community feedback and recommendation on the preferred SRV option. • Adopt the LTFP with the preferred SRV Option. • Re-adopt the Delivery Program with the preferred SRV Option.
February 2024 – April 2024	IPART	IPART independent community engagement activity: <ul style="list-style-type: none"> • Council to promote through Council website
April 2024	Council	Resolve to place Draft 2024-25 Operational Plan including Revenue Policy on public exhibition (28 days).
April 2024 – May 2024	Council	Community Engagement Activity – Operational Plan and Revenue Policy <ul style="list-style-type: none"> • Website • Media releases • Social Media
May 2024	IPART	IPART Final report on SRV Assessment
June 2024	Council	<ul style="list-style-type: none"> • Receive report on community feedback on operational plan and Revenue Policy • Adopt Rates & Annual Charges

Risk/Policy/Legislation Considerations

Section 403 of the Local Government Act 1993 (the Act) requires Council to have a long-term strategy (called its resourcing strategy) for the provision of the resources required to perform its functions (including implementing the strategies set out in the community strategic plan).

The Office of Local Government provides guidelines for the preparation of an application for a special variation to general income which includes the criteria that IPART will assess in considering a council’s SRV application.

IPART sets the rate peg and approves rate increases above the rate peg.

The Local Government Act 1993 Sets out the following principles of sound financial management at Chapter 3 8B:

- a) *Council spending should be responsible and sustainable, aligning general revenue and expenses.*
- b) *Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.*
- c) *Councils should have effective financial and asset management, including sound policies and processes for the following—*

- (i) performance management and reporting,*
 - (ii) asset maintenance and enhancement,*
 - (iii) funding decisions,*
 - (iv) risk management practices.*
- d) *Councils should have regard to achieving intergenerational equity, including ensuring the following—*
- (i) policy decisions are made after considering their financial effects on future generations,*
 - (ii) the current generation funds the cost of its services.*

Conclusion

The key risks that have been identified are that the LTFP and engagement doesn't meet IPART assessment criteria and that the potential rate increase is at a time when rate payers are also faced with inflationary cost of living pressures.

There will be extensive community consultation as per the Community Engagement Plan outlined in this report. Council will consider all community feedback at the November 2023 Council Meeting.

“Doing nothing” is not an acceptable risk to Council. Council must deliver on its financial governance responsibilities as legislated and required by the NSW Government. The BAU will result in Council eventually running out of cash reserves and it will have failed to keep its assets in acceptable condition.