Goulburn Mulwaree Council
Background Paper: The Special Rate Variation

Introduction

Morrison Low Consultants has been engaged by Goulburn Mulwaree Council ('Council') to clarify the need for, and to develop, a Special Rate Variation (SRV) application. Council operates four separate business or funds, namely General, Water, Sewer and Domestic Waste. The proposed special rate variation can **only** apply to the General Fund and does not impact the other funds.

The Local Government Act requires councils to apply sound financial management principles where councils should:

- spend responsibility and sustainably align general revenue and expenses
- invest in responsible and sustainable infrastructure
- have effective financial and asset management
- regard to achieving intergenerational equity.

These principles are the foundation for sound financial management and a financially sustainable council that has the financial capacity to deliver the services to its community over the long term.

This background paper addresses and relates to the General Fund operations of Council.

Current situation

The Goulburn Mulwaree Council ('Council') financial position is unsustainable at the current levels of expenditure and income. This has occurred for a number of reasons discussed in this background paper.

Council has made decisions on assets, services and rating options in the best interests of its communities. However, this, when combined with other external influences and legislative restrictions, has gradually led to declining financial sustainability. This is a problem which Council must now address as a matter of urgency.

Council's 2024-2034 Long Term Financial Plan (LTFP) forecasts consolidated operating deficits to 2034. The General Fund average operating deficit for the 10-year forecast period is estimated at $10.7 million per annum. Ongoing core costs and externally imposed obligations on local governments are outpacing revenue growth and placing council budgets under increasing pressure. Unless current levels of income are increased, Council will be unable to resource renewal of assets and maintain current services. Goulburn Mulwaree Council is not alone, with some 60 NSW councils reported operating deficits in their General Fund in 2021/22.

Why does Council need to be sustainable?

The Local Government Act requires councils to apply sound financial management principles and to develop long term financial plans that maintain financial sustainability into the future. The financial sustainability objectives that support service delivery are:

- achieving a fully funded operating position
- adequate/sustainable cash position and use of reserves and borrowings
- having an appropriately funded capital program
- maintaining its asset base 'fit for purpose'
- having adequate resources to meet ongoing compliance obligations
- explore options to improve financial sustainability
- responsible and sustainable spending.

These objectives are the foundation for sound financial management and are not negotiable. If a council fails to meet these principles, then the government may intervene in council operations. We only have to look at the recent government interventions of the Central Coast Council as an example, where there was a shortfall in cash for General Fund operations.

A financially sustainable council has the financial capacity to maintain assets and deliver services to its community over the long term.

Why has Council become unsustainable now?

All councils face financial sustainability challenges on a cyclic basis; this is caused by the constraints and influences on local government. Cost increases have exceeded rate increases, and typically councils reduce spending on key services like asset maintenance and renewals to keep services going and meet new costs.

There are a number of contributors to this growing financial sustainability gap, some of which are outside of Council's control and others which Council has some influence over.

Rate capping is a contributor. The Independent Pricing and Regulatory Tribunal (IPART) has set the rate peg for NSW councils by taking the increase in the Local Government Cost Index (LGCI) and applying productivity gains or allowances for one-off events. The LGCI does not recognise some cost increases councils experience, nor does it provide that some councils will experience cost increases higher than the average due to location or other events. Over time small shortfalls accumulate, and councils generally respond by spending less on asset renewals and maintenance and services until they reach a point approaching failure.

Cost shifting. Cost shifting comes in two main forms, the transfer of responsibilities and increased compliance costs and responsibilities imposed on local government by state government.

Over the last decade, the NSW State Government, and to a lesser extent, the Australian Government, have transferred costs to local government without sufficient recompense. Major types of cost shifting include the withdrawal of financial support once a program is established, the transfer of assets without appropriate funding support, the requirement to provide concessions and rebates without compensation payments, increased regulatory and compliance arrangements and failure to provide for indexation of fees and charges for services prescribed under state legislation or regulation. Key impacts on Council have included:

- ARIC – internal audit program using external/internal resources
- Emergency Service Levy increases and withdrawal of the subsidy

- Crown Land, Plans of Management, Compliance reporting
- Cyber security.

New assets are important for any community, especially when provided through federal and state government grant programs and developer contributions. Grants are often discretionary as Council is generally not compelled to apply for, or accept, grant funding even though it means valuable community infrastructure is funded by government. All new infrastructure generally carries hidden costs. The rate cap does not allow for the new costs associated with the operation, maintenance, renewal and depreciation of new assets, and Council has to fund these additional costs through its existing budget. Over time these costs eat into Council's sustainability as it funds more and more new asset costs from its existing budget.

Service level improvements or higher service levels also contribute to the decline of financial sustainability. Over time service levels have increased, and while some service level changes have delivered net benefit, the great majority have imposed additional costs.

In the six years to 2021/22, the average operating performance ratio of NSW councils has steadily declined from 9.8% in 2016/17, to 1.5% in 2021/22. On top of this steady decline, the economic climate has changed post COVID-19. The high level of inflation is impacting the cost of materials and contracts that Council purchases to deliver services. This means that Council can no longer keep expenditure contained within the levels forecast in the LTFP without significant impact on service delivery to the community.

With costs out-stripping revenue, resulting in operating deficits, Council has reduced infrastructure renewal and maintenance to ensure a balanced budget. In some areas, Council has been able to utilise state and federal grants, as well as loans, to fund infrastructure renewal and operations. However, these sources of funds are unreliable and unsustainable. Serving and paying back loans is becoming more costly. Council must now consider increasing rates revenue to adequately fund its current services and infrastructure needs.

In its 2022-26 Delivery Program, Council identified the need to consider a special variation for rates to ensure its ongoing financial sustainability. In the 2024-34 Long Term Financial Plan (LTFP), a draft of which will be exhibited in line with consultation on the SRV, Council commenced the process of modelling an SRV in its financial planning scenarios.

Looking forward, the financial sustainability challenge will only increase

The tight labour market means that Council must plan for an increase in wages, particularly to attract and retain staff. In addition, Council requires additional staff to deliver on the increased demand on current services, facilities and assets.

A high inflation environment, low rate increases and increased costs for materials and logistics will continue to impact financial sustainability.

Council's Community Strategic Plan and Delivery Program identify several actions to deliver community aspirations that will enhance the liveability of the Goulburn Mulwaree LGA.

Population has steadily grown from 28,363 in 2011 to 32,394 in 2022, with future estimates increasing to 40,204 by 2041[1]. Despite the growth Council does not have the revenue to provide for increased demand on services nor the associated demands on maintaining assets at the current levels.

Specifically, Council has some operational challenges that need to be address for long term sustainability. These include:

- additional resources to meet the growing demand on services, facilities and infrastructure assets
- updating the IT system to address operational and cyber security issues
- adequate funding to maintain current asset conditions
- sufficient financial provisions for future rehabilitation obligations.

What has Council done to address financial sustainability challenges?

Council undertakes regular reviews to ensure that it is containing costs and implementing efficiency gains so that it is able to provide value for money to the community. Council has found savings to date of approximately $0.639 million per year in financial benefits, one-off land sales of $5.2 million, plus efficiency and productivity improvements. Some 44 initiatives were implemented, including review of electricity accounts, ceasing the mobile library service, using internal borrowings to reduce interest cost and increase returns, implementation of LED street lighting and a comprehensive review of s7.11 and s7.12 developer contributions.

Council also undertook a review of its Asset Management Strategy and Plans that identified a range of improvements. The overarching improvement plan and actions is detailed in Council's Strategic Asset Management Plans document.

Going forward, Council has identified a further 42 improvement initiatives that it will implement in the coming years, providing a further annual net benefit of $1.45 million. The one-off cost of implementation is $1.9 million. Council has also absorbed some key service expenditure items such as the Emergency Service Levy subsidy reduction. These improvements have been included in the updated LTFP. There are a further 19 improvement opportunities identified that need to be further assessed and costed before implementing, which are not included in the updated LTFP.

Council has also identified additional costs that it must incur to ensure its ongoing organisational sustainability, namely additional staff to address the growing service demand and asset usage. This will be implanted over three years at an estimated cost of $2.5 million.

Further details on these improvement initiatives and organisational sustainability requirements can be found in the Council's Organisational Sustainability Review and Improvement Plan report (August 2023).

While these changes will lead to an improvement in sustainability alone, they will not be sufficient for Council to be financially sustainable.

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[1] NSW Department of Planning and Environment. *Planning Portal: NSW Population Projections*. https://www.planningportal.nsw.gov.au/populations

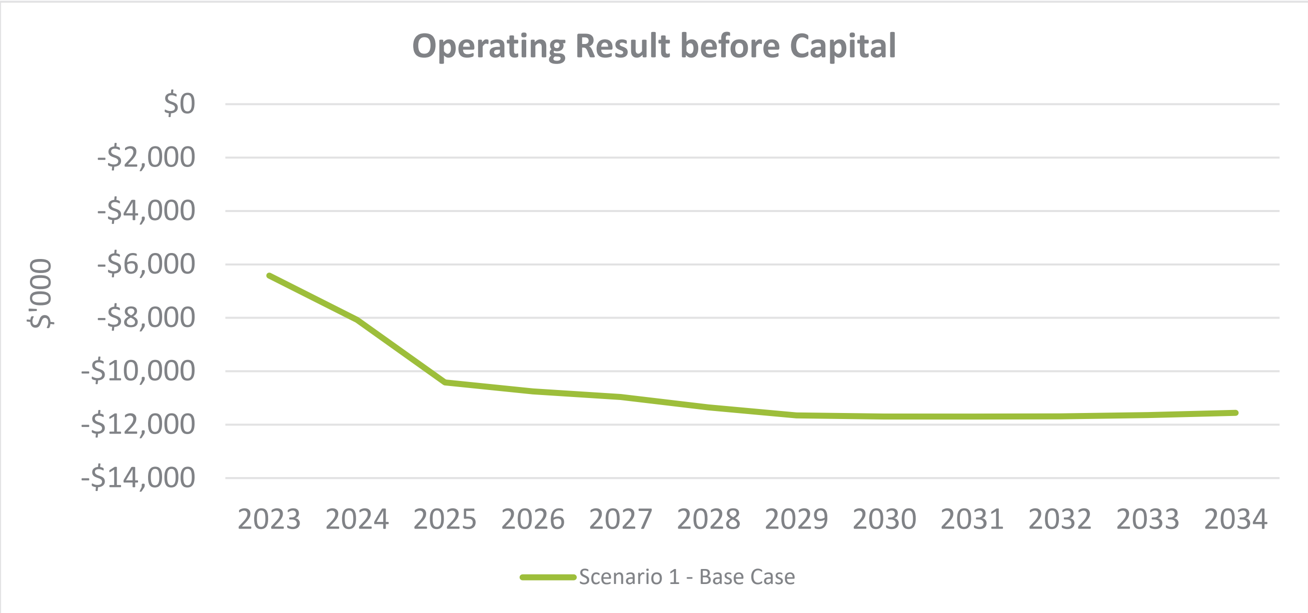
Council's current financial situation

The base case or status quo outlines what would happen if Council did nothing. This would mean Council would have:

- an average General Fund operating deficit for 10-year forecast period, estimated at $10.7 million pa and shown in Figure 1 below
- insufficient money to maintain current service levels and asset conditions
- inadequate funding for infrastructure renewal
- under funding for expected growth and expanded services.

The following graph illustrates ongoing estimated operating deficits culminating in 2033/34 with a $11.5 million annual operating deficit. Over the same period, General Fund unrestricted cash averages $990 thousand per year with a negative position for the first six years of the forecast period.

Figure 1 Ongoing estimated operating deficits (excluding capital)



It is clear that this situation is not sustainable, and Council would be negligent of its statutory obligations if it were to ignore this.

Proposed special rate variation

Council believes that a special rate variation (SRV) is the most viable solution to the Council's financial sustainability challenges, noting that prior to this Goulburn Mulwaree Council has ***never*** applied for an SRV.

What is a special rate variation?

With rate capping, almost all NSW councils will be faced with having to apply for a special rate variation at some point. Councils go through cycles of SRVs, largely for the reasons set out earlier in this paper.

There are two types of SRVs:

- A temporary SRV for a fixed amount over a fixed period of time.
- A permanent SRV for a fixed amount over a fixed period that remains in the rate base.

When a temporary SRV expires, rates return to the original level at the conclusion of the approval period and are usually approved to fund specific one-off projects like infrastructure renewal or reducing the infrastructure backlog. Goulburn Mulwaree Council's financial challenges are more general, and a temporary SRV would not solve the problem.

Permanent SRVs can be for a single year or every year for an approved period. Council intends to make application for a permanent SRV. Council must apply to IPART for approval to increase rates through an SRV.

What SRV is proposed for Goulburn Mulwaree Council?

To achieve financial sustainability and maintain fit for purpose infrastructure, Council requires a permanent cumulative rate increase from 1 July 2024, this includes the expected rate peg increases that Council would have otherwise increased rates by.

Having considered a number of options, Council's preferred option is – Option 1 a one-year SRV of 40.0% and including the rate peg it represents a 43.5% increase. The following table details the two options that Council considered and are for community consultation.

Table 1 Proposed SRV increases

SRV Options	2024-25	2025-26	Cumulative Increase over SRV period	Comparison Rate at Year 2
Option 1: One-year SRV including rate peg	43.5%	2.5%	43.5%	47.1%
Option 1: One-year SRV excluding rate peg	40.0%		40.0%	
Option2: Two-year SRV including rate peg	25.5%	20.5%	51.2%	51.2%
Option 2: Two-year SRV excluding rate peg	22.0%	18.0%	44.0%	
Forecasted rate peg	3.50%	2.5%		6.1%

Minimum rate special rate variation

Council has in place a minimum rate for Business category of $591. To maintain equity Council plans to apply the proposed SRV options evenly across the rating structure and will need to make an SRV minimum rate application in accordance with the IPART requirements. The proposed minimums are: one SRV option $848 for 2024/25; two-year option $724 for 2024/25 and $872 for 2025/26.

IPART determines the annual rate peg that councils receive each year, based on the increase in cost of a selection of goods and services that NSW councils purchase. This calculation looks back over the past year of cost increases and applies the rate peg to the next financial year. The 2024-25 rate peg will be based on cost increases experienced in 2022-23. The rate peg increases for 2024-25 and 2025-26 have been forecasted at 3.5%, and 2.5% respectively. Further details on these assumptions are outlined in Council's updated Long Term Financial Plan. It is noted that IPART is currently reviewing the rate peg methodology.

What do these proposed changes mean for ratepayers?

The impact on an individual's rates will be different depending on the unimproved land value of their property. The following table provides an indication of the annual rates increase likely to be experienced by the average land value for each rating category. The increases include the forecast rate peg.

Table 2 Estimated average rates to 2025/26

Rate Category	Average Rate 2023/24	Average Rate Cumulative 2024/25	Average Rate Cumulative 2025/26	Average Annual Increase Over One Year	Average Annual Increase Over Two Years
Residential	**2023/24**	**2024/25**	**2025/26**	**Annual Increase 2024/25**	**Annual Increase 2025/26**
No SRV – rate peg only	$1161	$1202	$1231	$41	$35
1 Year SRV	$1161	$1666	$1708	$505	$274
2 Year SRV	$1161	$1457	$1756	$296	$298
Business					
No SRV – rate peg only	$5300	$5486	$5623	$186	$162
1 Year SRV	$5300	$7606	$7796	$2,306	$1,248
2 Year SRV	$5300	$6652	$8016	$1,352	$1,358
Farmland					
No SRV – Rate peg only	$2543	$2632	$2698	$89	$78
1 Year SRV	$2543	$3649	$3740	$1,106	$599
2 Year SRV	$2543	$3191	$3845	$648	$651

How do my rates compare to other councils?

The Office of Local Government groups councils with other similar councils for comparison. Goulburn Mulwaree Council is in Group 4 with 25 other councils. This group of councils represents a diverse cross section of geographies and communities across New South Wales, including the neighbouring council of Upper Lachlan have also been included for comparative purposes.

Firstly, the below table reflects the average rates by category, paid by residents of similar councils in 2021/22. When you compare rates paid by other like-size councils, before the application of the proposed SRV, Goulburn Mulwaree Council average rates are one of the lowest for residential and farmland, however business are at the higher end. Farmland rates for Upper Lachlan and Goulburn Mulwaree are similar with Upper Lachlan slightly higher.

Table 3 2021/22 Average residential, business and farmland rates compared to other councils

LGA 2021/22 Average Rates Group 4 Councils	Average Residential Rate ($)	Average Business Rate ($)	Average Farmland Rate ($)
Albury	1,416	6,279	4,477
Armidale Regional	1,066	3,877	3,387
Ballina	1,137	3,567	1,784
Bathurst Regional	1,173	4,396	1,537
Bega Valley	1,159	2,664	2,335
Broken Hill	1,102	6,418	1,091
Byron	1,415	3,529	2,547
Cessnock	1,265	3,858	2,922
Clarence Valley	1,235	3,042	1,669
Dubbo Regional	1,091	4,863	3,720
Eurobodalla	1,116	3,746	1,676
Goulburn Mulwaree	**1,057**	**5,294**	**1,831**
Griffith	1,078	2,865	3,815
Kempsey	1,275	2,619	2,095
Kiama	N/A	N/A	N/A
Lismore	1,361	4,572	2,560
Lithgow	840	4,850	1,662
Mid-Western Regional	988	2,197	2,572
Orange	1,493	6,131	1,953
Queanbeyan-Palerang Regional	1,212	4,981	2,566
Richmond Valley	1,116	3,002	1,822
Singleton	1,181	2,438	2,424
Snowy Monaro Regional	948	1,510	1,987
Tamworth Regional	1,119	3,693	2,042
Wagga Wagga	1,127	5,999	2,845
Wingecarribee	1,872	4,573	3,983
Upper Lachlan	**575**	**1,450**	**1,910**
Average Group 4	***1,148***	***3,883***	***2,358***
Median Group 4	***1,137***	***3,858***	***2,335***

The following tables detail the estimated average for the rates to 2024/25 and 2025/26 with the application of Council's preferred one year option. Where any approved SRV has been included for other councils. Goulburn Mulwaree Council's average rates for all categories have increased above the group average and are toward the top end of the group.

Table 4 2024/25 Estimated average residential, business and farmland rates compared to other councils

Estimated average rates for 2024/25			
Average Rates Group 4 Councils	**Est. average residential ($)**	**Est. average farmland ($)**	**Est. average business ($)**
Albury	1,590	5,029	7,053
Armidale Regional	1,514	4,665	5,390
Ballina	1,277	2,004	4,007
Bathurst Regional	1,318	1,727	4,938
Bega Valley	1,791	3,279	4,255
Broken Hill	1,238	1,225	7,209
Byron	1,589	2,860	3,964
Cessnock	1,420	3,282	4,333
Clarence Valley	1,387	1,875	3,417
Dubbo Regional	1,226	4,179	5,462
Eurobodalla	1,254	1,883	4,208
Goulburn Mulwaree	**1,666**	**3,649**	**7,606**
Griffith	1,211	4,285	3,218
Kempsey	1,432	2,354	2,941
Kiama	N/a	N/A	N/A
Lismore	1,528	2,876	5,135
Lithgow	1,149	2,231	8,210
Mid-Western Regional	1,110	2,889	2,468
Orange	1,677	2,193	6,886
Queanbeyan-Palerang Regional	1,763	3,639	7,080
Richmond Valley	1,254	2,047	3,371
Singleton	1,327	2,722	2,738
Snowy Monaro Regional	1,268	2,507	1,457
Tamworth Regional	1,257	2,294	4,149
Wagga Wagga	1,266	3,195	6,738
Wingecarribee	2,103	4,473	5,137
Upper Lachlan	**633**	**2,101**	**1,595**
Average Group 4	1,370	2,822	4,668
Median Group 4	1,327	2,860	4,333

In the 2025/26 average rate table below, Goulburn Mulwaree Council's position in terms of comparison to other councils improves slightly for all rating categories.

Table 5 2025/26 Estimated average residential, business and farmland rates compared to other councils

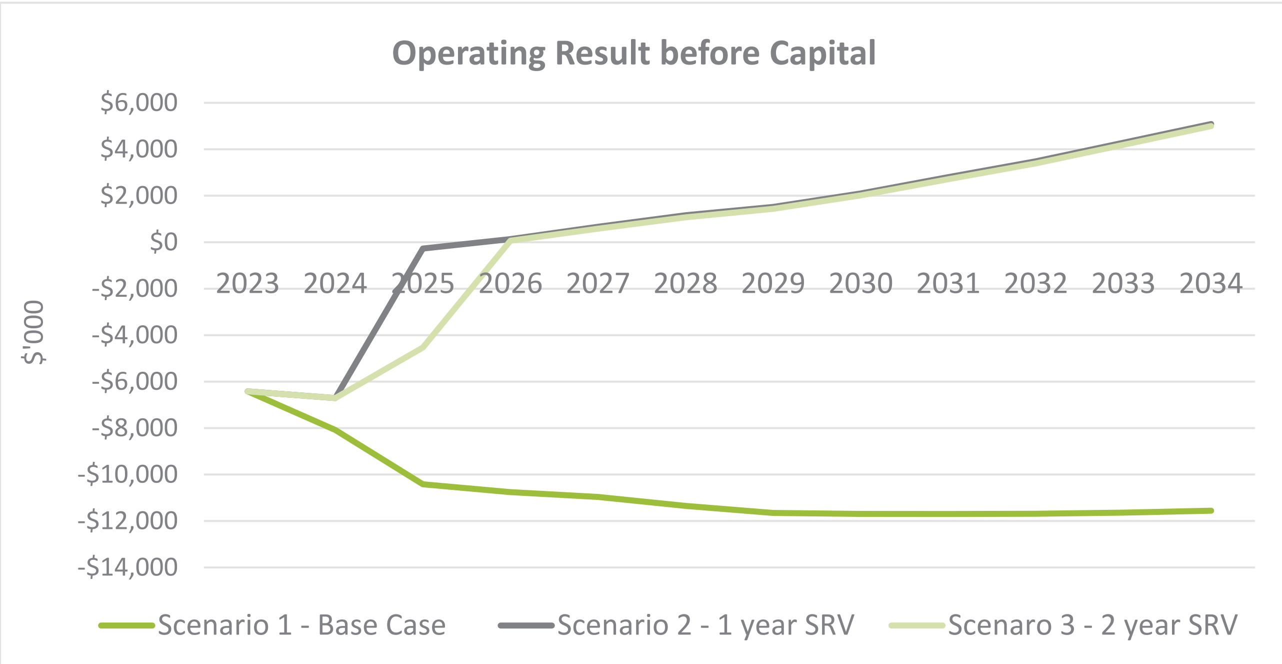
Estimated average rates for 2025/26			
Average Rates Group 4 Councils	**Est. average residential ($)**	**Est. average farmland ($)**	**Est. average business ($)**
Albury	1,630	5,155	7,229
Armidale Regional	1,963	5,509	6,303
Ballina	1,309	2,054	4,107
Bathurst Regional	1,351	1,770	5,061
Bega Valley	1,836	3,361	4,361
Broken Hill	1,269	1,256	7,389
Byron	1,629	2,932	4,063
Cessnock	1,456	3,364	4,441
Clarence Valley	1,422	1,922	3,502
Dubbo Regional	1,256	4,283	5,599
Eurobodalla	1,285	1,930	4,313
Goulburn Mulwaree	**1,708**	**3,740**	**7,796**
Griffith	1,241	4,392	3,298
Kempsey	1,468	2,413	3,015
Kiama	N/A	N/A	N/A
Lismore	1,567	2,947	5,264
Lithgow	1,178	2,287	8,415
Mid-Western Regional	1,137	2,961	2,530
Orange	1,719	2,248	7,058
Queanbeyan-Palerang Regional	2,080	4,293	8,355
Richmond Valley	1,285	2,098	3,456
Singleton	1,360	2,790	2,806
Snowy Monaro Regional	1,404	2,777	1,613
Tamworth Regional	1,289	2,351	4,252
Wagga Wagga	1,297	3,275	6,907
Wingecarribee	2,156	4,585	5,265
Upper Lachlan	**648**	**2,154**	**1,635**
Average Group 4	1,434	2,950	4,861
Median Group 4	1,404	2,932	4,441

For more information on ratepayer impact and capacity to pay, refer to Capacity to Pay report. The report finds that there is some degree of inequity within the Goulburn Mulwaree LGA. However, as average residential land values generally align to the levels of advantage and disadvantage across the LGA, the increases proposed under the SRV options are relatively proportionate. This indicates a level of capacity to pay additional rates across the Council area.

How does this improve Council's financial sustainability?

Under the base case, Council will experience deficits every year of the forecast period. There is a slight increase in the cash position, however this is due mainly to the under spending on asset renewal. This reduction in spending means that many of Council's assets will have deteriorated and will require additional work to bring back to a satisfactory condition. The proposed special rate variation arrests deficits seen in the base case and allows Council to maintain surpluses, that is revenues will fully cover expected operating expenditure and capital renewal.

Figure 2 General Fund forecast operating result



With a forecast modest surplus, Council will be in a position to invest in its asset upgrade and renewal and maintain the current backlog ratio, and therefore the infrastructure assets, in a satisfactory condition. Over the ten-year forecast, Council would be able to sustain an asset renewal rate averaging 100%, equivalent to the benchmark and fund the additional resource requirement to meet service demands across the LGA.

The following two figures show the forecast renewal and backlog ratios for Council assets. Scenarios two (2) and three (3) are exactly the same and therefore only one line shows on the graph.

Figure 3 Forecast asset renewal ratio.

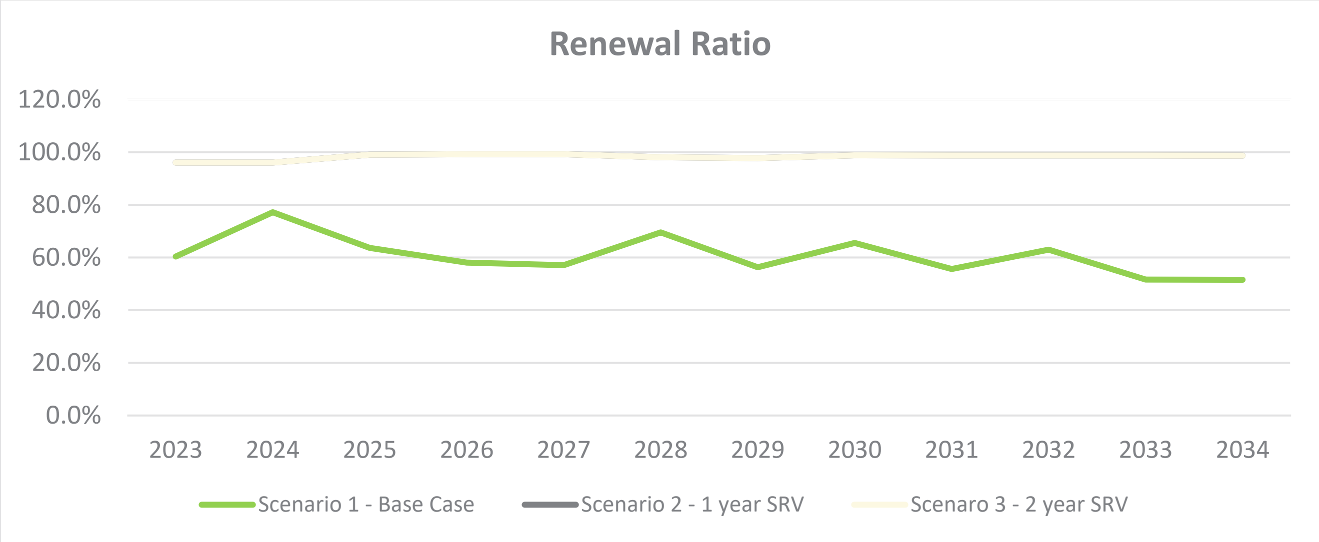
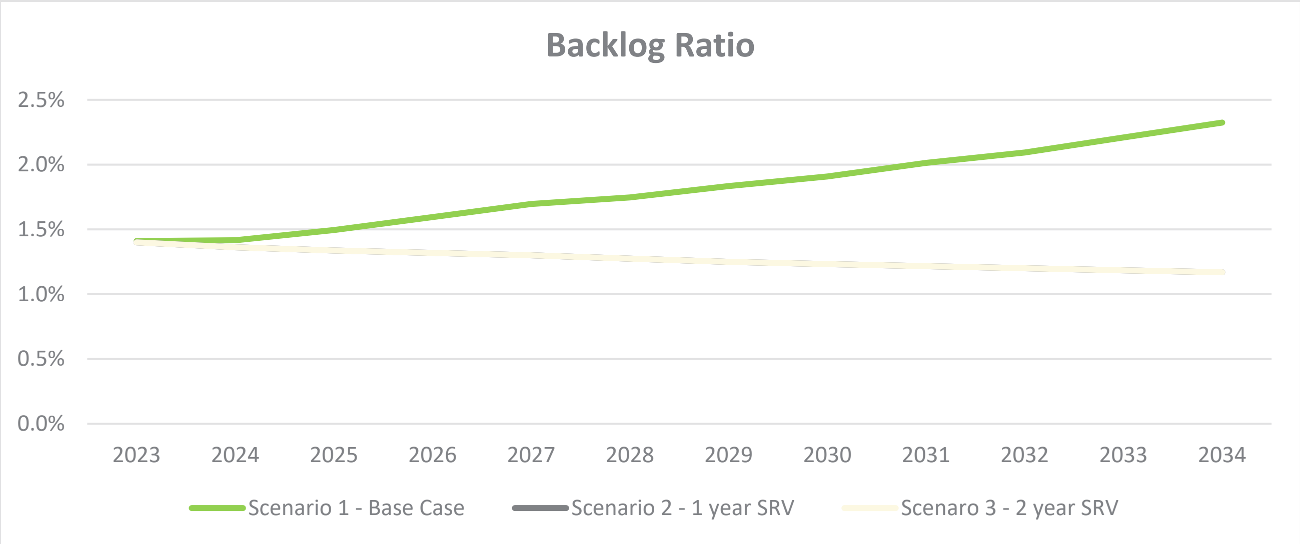
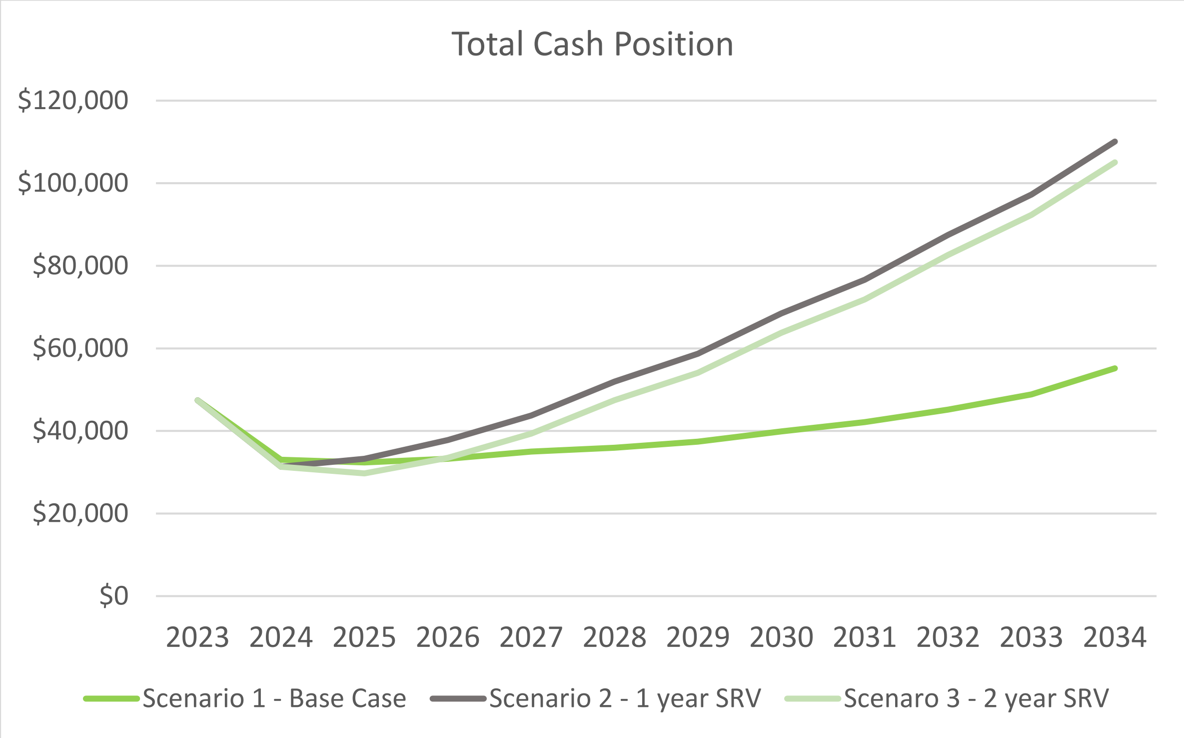


Figure 4 Forecast backlog ratio



Under the base case, Council is not able to spend sufficiently on assets, and, as a result, cash was growing. Under the SRV options, Council is making best use of its cash reserves to invest in its assets, while still ensuring positive unrestricted cash balances throughout the 10-year forecast period.

Figure 5 General Fund forecast total cash position.



Sound financial management encourages planning for modest operating surpluses and maintaining sufficient unrestricted cash reserves. This enables councils to respond to events that cannot be predicted or planned for in their long-term financial plan. Goulburn Mulwaree Council has experienced these events and, while what exactly will occur in the future is unpredictable, it is prudent that it plans for similar expenditure in the future.

The above forecast cash position Council has made provision for its compliance objections to rehabilitate the quarries and gravel pits toward the end of the ten-year forecast period. Allowing for the rehabilitation cash provisions, Council is expected to achieve an acceptable unrestricted position by 2030. Should Council build its cash balances as forecasted above, it will be able to transfer unrestricted cash for specific purposes to internal restrictions, including employee leave provisions, additional quarry and gravel pit provisions, etc, which will reduce its reported unrestricted cash.

Council has updated its long-term financial plan to show the impacts of both the base case (no SRV) and the proposed SRV case scenario. This will be out for exhibition during the SRV consultation period.

What would happen if Council does not increase its rates by the proposed amounts?

Council's current base case is not financially sustainable as it involves significant General Fund deficits over the ten-year forecast period. On its current path, Council is forecast to move into a negative unrestricted cash position for the first three years.

If Council could not increase its rates revenue through an SRV, it would need to cut its operating costs significantly, subsequently having insufficient funding for asset renewal requirements. Council would be faced with the decision to stop or significantly reduce discretionary services such as cultural or recreational services and facilities. Council's infrastructure would also continue to deteriorate due to in adequate funds to maintain them in a satisfactory condition fit for purpose.

What is the process for Council to apply for an SRV?

Council must apply to IPART for approval to increase rates through an SRV. Before doing so, Council must demonstrate that it has engaged the community about the possibility of an SRV and has considered its views. IPART will also seek community feedback.

More information on SRVs can be found on IPART's website:
https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations

Where can I get more information?

More information on the proposed SRV is available from Council's SRV information and Feedback page:

https://www.goulburn.nsw.gov.au/Council/Public-Exhibition-Notices/Special-Rate-Variation

Council will also be including information on the proposed SRV in its regular newsletters and to the media. We will also be running public forums for community to find out more and to ask questions. Dates and locations will be advised shortly.

Council will seek feedback from the community on the SRV and its updated Long Term Financial Plan and Delivery Program. The community is encouraged to provide feedback to Council.

What happens after this?

Once the community consultation period concludes, Council will review the feedback received.

A report will then go to Council for their consideration of the feedback and any updates required to the LTFP. Council will decide whether to proceed with the SRV application.

If they decide to proceed with the SRV application, the application will be submitted to IPART in February 2024. IPART will conduct its own consultation, with public submissions likely to be sought in March 2024, before they make their determination in May 2024. If successful, the SRV will be included in rates from 1 July 2024.