

special rate variation proposal
for 2016-2017

Special Rate Variation proposal for 2016/2017

During 2015/2016 it is Council's intention to apply to the Independent Pricing and Regulatory Tribunal (IPART) for a Special Rate Variation (SRV) pursuant to section 508A of the Local Government Act 1993. The SRV involves a permanent multiple year increase to Council's general income over a 4-year period commencing in 2016/2017.

The need and purpose for the Special Rate Variation

Council requires additional funding to provide a sustainable level of service in terms of its infrastructure and operations.

During 2012/2013 Great Lakes Council was one of 35 councils in New South Wales to be the subject of an on-site audit of its asset management data and practices. This audit was part of a broader council-by-council infrastructure audit conducted by the NSW State Government. The key objectives of the Audit were to:

1. provide information in relation to the infrastructure backlog in NSW
2. assess the reliability of the information provided by councils to determine the backlog
3. identify trends in infrastructure needs by area and asset type
4. identify current infrastructure risk exposure.

The on-site audit rated Council's asset management systems and practices as a D - basic level of competence. When combined with the desk-top Infrastructure Management Assessment conducted by the Office of Local Government, Council was assessed as being a 'Moderate' council in terms of its current funding position and status of infrastructure.

Council engaged Morrison Low, who conducted the on-site audit, to facilitate a formal Asset Management Improvement program with Council so as to improve its asset management capabilities. This would provide more detailed and reliable data and information on Council's infrastructure assets.

Council's decision making ability would be enhanced through a better understanding of the current state of its infrastructure and of the financial resources required to maintain and renew these assets across the lifecycle.

The result of this work was a series of revised Asset Management Plans that identified the funding requirements to bring the various classes of infrastructure up to a particular standard (or service level) and to maintain them at that standard.

A series of sessions with Council and the community where the various levels of service and the financial implications were explained have been held. Recommendations were made by the managers of those assets as to the appropriate level of investment required to maintain assets at an appropriate level. In many instances this was at a 'fair' or 'poor' level given the substantial increase in funding that would be required to bring the various classes of asset up to a 'good' condition.

During 2014 Council commissioned an informed community survey to obtain information on the service levels that were considered to be acceptable to the community. This survey also sought feedback on the level of investment of funds for each class of asset and the appetite for a special rate variation to increase a service level for a particular asset class or address a particular backlog.

While the community was generally satisfied with current level of service and the funding allocated for most of the asset classes it was agreed that more work needed to be done on our Rural Sealed Road network.

Council proposed, and the community agreed, that all roads within this class should be in a 'fair' condition, at a minimum. With 14% of these roads in either a 'poor' or 'failed' condition an injection of approximately \$900,000 per annum was required to eliminate this backlog and then maintain the asset class in a 'fair' condition.

Only 9% of the surveyed population disagreed with this proposal.

Appreciating the need to address this deteriorating asset position immediately, Council allocated an additional \$1 million in the 2014/2015 and 2015/2016 budgets so as to allow works to commence on the Rural Sealed Road network. At present this additional amount is being obtained from loan borrowings with the loan repayments being met from a Council reserve. Unfortunately this is not a sustainable funding source as eventually the loan repayments exceed the amount that is being borrowed.

As such it is necessary to seek a special rate variation to make this funding injection a permanent part of the budget. It is also proposed that the special rate variation should fund the loan repayments mentioned above.

There are a number of other smaller items that Council is also seeking to fund through the special rate variation that are asset related or designed to improve organisational efficiencies.

Council recently received the results of an audit of its Playground Equipment Network and this revealed that Council needed to undertake immediate maintenance works and implement a Playground Equipment Replacement Program. Many of the current playgrounds are reaching the end of the useful lives and do not meet current standards or community expectations. An immediate injection of funding was provided to address maintenance issues however the current budget is unable to cater for the introduction of the recommended replacement program.

An amount of \$100,000 per annum is required to adequately address this issue.

There is a need to replace the roof on Council's Forster Administration Headquarters to address flooding issues that arise due to the poor design and construction of the facility during the 1980s. Council services are regularly impacted following storm events where the entry of water into the building interrupts services, creates safety issues for staff and the public and results in costs to clean-up and replacement equipment, furniture and fittings after the event.

While design and cost estimates are still being finalised a preliminary estimate in the vicinity of \$2 million is envisaged. It is proposed that this amount be funded through loan borrowings with the repayments funded through a special rate variation. From a timing perspective it is planned to undertake this work once the construction of a new Forster Library has been completed. This is necessary as staff will need to be progressively relocated from the current Administration Headquarters into the vacant old Library while roof replacement occurs.

From an operational perspective there has been a need for Council to provide additional professional resources within its Engineering Division to focus on routine floodplain management, coastal and estuary catchment issues and drainage matters thereby freeing up highly qualified and experienced staff to concentrate on the comprehensive integrated strategic considerations that are involved in this field. It is proposed that a Graduate Engineering position be incorporated within Council's Organisation Structure with the funds sourced through the special rate variation. The amount being sought is \$80,000 per annum.

Council has recently adopted an ICT Strategy which addresses and plans for the needs of the organisation and increases the effectiveness and efficiencies of the systems and technological infrastructure required to operate a multi-purpose local government authority. An amount of \$100,000 per annum is to be allocated from the special rate variation to implement various aspects of the ICT Strategy.

It should be noted that due to the terms of the Instrument of Approval for Council's Environmental & Dredging Levy any increase in rates above the rate peg has the flow-on effect of increasing the amount of funds that are to be recognised in the calculation of this levy. The utilisation of this windfall to the Environmental & Dredging Levy would be determined through Council's normal budgeting process and the Instrument of Approval.

As the community is aware Council was previously successful in receiving a section 508A special rate variation (3 X 8%) which allowed for essential services to be maintained and for additional asset maintenance works to be undertaken. This special rate variation

substantially repaired a budget that was predicting continual and growing deficit results - an unsustainable position. There is a small unallocated amount contained within each year of this special rate variation which will be utilised to maintain the current predicted budgetary result. The current budget has taken a number of 'hits' on the revenue side from sources outside Council's control e.g. Federal Government freeze on growth of the Financial Assistance Grants, lower interest on investments environment etc. While Council has been able to absorb these impacts in the current budgets they do have a long term impact which will lead to a reduction in service levels unless additional revenue is received to slow the deterioration of the longer term budget result. Those amounts contained within this special rate variation proposal will assist in maintaining the upwardly trending budget result that was forecast .

Details of the Special Rate Variation proposal

Council proposes to lodge a section 508A special rate variation with the Independent Pricing and Regulatory Tribunal. A section 508A variation involves successive annual percentage increases above the rate peg for a period between 2 and 7 years.

Council is seeking a 4 year variation with the additional revenue to be retained permanently within Council's general income.

The percentage increase and total amounts that would be raised from this are:

Year	Percentage increase	Rate peg	Percentage rate increase above rate peg	Additional amount above rate peg
2016/2017	6.50%	3.00%	3.50%	\$1,121,000
2017/2018	4.25%	3.00%	1.25%	\$426,500
2018/2019	4.25%	3.00%	1.25%	\$444,500
2019/2020	4.25%	3.00%	1.25%	\$463,500

As can be seen from the above table the additional rates raised from the special rate variation above those that would be received from the annual rate peg increase is approximately \$2,455,500. It should be noted that the above figures have been calculated based upon the draft 2015/2016 rates structure. While these amounts are likely to be close to the final figures available for allocation to projects the final figure will be determined by movements within Council's rates database by way of valuation changes, additions and consolidation of rateable properties etc.

The cumulative or compound of the increases over the 4 year period of the requested variation is 20.66%. However it should be noted that the cumulative impact of the rate peg over the same period is an increase of 12.55%.

Allocation of Additional Rate Funds

The items proposed to be funded through the special rate variation are outlined above. The table below sets out the estimated timeline for the expenditure of these funds should the application be successful.

Project	2016/2017	2017/2018	2018/2019	2019/2020
Rural Sealed Roads Allocation	500,000	400,000	100,000	
Loan Repayments - Road Allocation 2014/2015	125,000			
Loan Repayments - Road Allocation 2015/2016	125,000			
Graduate Engineer	80,000			
ICT Strategy Implementation	100,000			
Playground Equipment Replacement Program	100,000			
Loan Repayments - HQ Roof Replacement			260,000	
Environmental & Dredging Levy Component	59,000	22,000	23,000	24,500
New Library Building Operating Expenses	32,000			
Restoration / maintenance of service levels impacted by loss of revenue resulting from external decisions e.g. FAG		4,500	61,500	439,000
Total	1,121,000	426,500	444,500	463,500

Impact on Residential Ratepayers

The following is an estimate of the impact of the special rate variation on the **average** residential ratepayer based on the various sub-categories of the residential rate across the Council area. This relates to the impact of the special rate variation on the Ordinary Rate only.

Residential Category	2015/2016	2016/2017	Increase		2017/2018	Increase		2018/2019	Increase		2019/2020	Increase	
	\$	\$	\$	%	\$	\$	%	\$	\$	%	\$	\$	%
Forster / Tuncurry / Green Point	1,172.85	1,249.08	76.23	6.5%	1,302.16	53.08	4.25	1,357.02	54.86	4.25	1,414.70	57.68	4.25
Lower Coastal	1,280.65	1,363.90	83.25	6.5%	1,421.86	57.96	4.25	1,482.29	60.43	4.25	1,545.29	63.00	4.25
Winda Woppa	2,650.25	2,822.52	172.27	6.5%	2,942.48	119.96	4.25	3,067.53	125.05	4.25	3,197.90	130.37	4.25
Pacific Palms	1,675.68	1,784.60	108.92	6.5%	1,860.45	75.85	4.25	1,939.52	79.07	4.25	2,021.95	82.43	4.25
Coomba Park	969.76	1,032.80	63.04	6.5%	1,076.69	43.89	4.25	1,122.45	45.76	4.25	1,170.15	47.70	4.25
Nabiac	1,007.22	1,072.69	65.47	6.5%	1,118.28	45.59	4.25	1,165.80	47.52	4.25	1,215.35	49.55	4.25
Bulahdelah	987.50	1,051.69	64.19	6.5%	1,096.39	44.70	4.25	1,142.99	46.60	4.25	1,191.56	48.57	4.25
Stroud	1,002.60	1,067.77	65.17	6.5%	1,113.15	45.38	4.25	1,160.46	47.31	4.25	1,209.78	49.32	4.25
Residential	1,187.30	1,264.47	77.17	6.5%	1,318.20	53.73	4.25	1,374.22	56.02	4.25	1,432.62	58.40	4.25
Avg. All residential properties	1,213.38	1,292.25	78.87	6.5%	1,347.17	54.92	4.25	1,404.42	57.25	4.25	1,464.10	59.68	4.25

Community Consultation

A Community Engagement Strategy will be developed and adopted by Council to ensure that there is widespread community awareness of this proposal. Community consultation will continue with the exhibition of this Delivery Program / Operational Plan and other activities will be considered to ensure that Council has given the public opportunities to provide feedback on this proposal.