

GENERAL MANAGER

Shaun Chandler

2. SPECIAL RATE VARIATION INVESTIGATION EF16/22

Precis:

Reporting on investigations into pursuing a special rate variation for the 2018/2019 financial year.

The following council resolution was adopted at the October 2017 Ordinary Council Meeting:

Minute No. 37550

A MOTION was moved by Cr Norman that Council investigate a special rate variation to address council's infrastructure backlog with the view to pursue a special rate variation for the 2018/2019 financial year.

A review and investigation of the requirements to prepare an application for a special variation to general income for 2018/2019 has been undertaken and I provide the following:

In December 2016 the Office of Local Government, issued Guidelines for the Preparation of an Application for a Special Variation to General Income for 2017/2018 and no further Guidelines have been issued to date since then, the information enunciated in this report is drawn from those Guidelines.

All special variation applications must comply with the requirements set out in the Guidelines. It is the responsibility of Councils to ensure their application is fully compliant and that all relevant information is provided as part of their application.

Councils must justify their application, undertake community consultation and ensure that the proposed rate increases and resulting income form part of their IP & R documentation.

The IP & R framework provides a mechanism for Council and the community to have important discussion about service levels and funding priorities and to plan in partnership for a sustainable future. The IP&R underpins decisions on the revenue required by council and determines whether the Council requires a special variation to meet the needs and demands of the community.

Since all Councils have implemented IP&R, the special variation guidelines and IPART's assessment process are based on an expectation that Councils will have engaged the community in a discussion on the funding required through the IP & R process.

Before applying for a special variation, Councils must adopt their Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable an Asset Management Plan. Council's do not have to adopt their Operational Plan for the coming year before submitting the application.

The reasons an individual Council may require a special variation are wide and varied:

- They don't have to be tied to a particular project or series of projects
- It might be required to either maintain current service levels or to increase service levels where the community has clearly indicated a desire to do so.

Council must specify the type of special variation for which they are applying. There are two types;

TYPE 1 Section 508A - this involves successive annual percentage increases over a period of between 2 and 7 years. These may be either permanent or temporary;

TYPE 2 Section 508(2) - this involves a single year percentage increase that may be either permanent or temporary.

The type of special variation that is appropriate will be determined by the General Fund revenue requirements as outlined in the adopted Long Term financial Plan.

Factors to determine the type of a special variation include:

- The size of the variation required
- The reason for the variation
- The need for the increase to be either permanent, or temporary for a fixed term
- The fluctuation of expenditure over time
- The financial objectives of Council and
- The rate at which Council wishes to recover its costs.

It is important that Councillors' understand the difference between each type of variation and the impact each will have on Councils financial position, the provision of services and the ability of ratepayers to pay the additional rates.

The assessment of applications for a special variation will examine the extent to which Councils have fulfilled their obligations under IP&R, in accordance with the criteria.

The IP&R Framework places great importance on linking community outcomes and aspirations (as identified in the Community Strategic Plan) to key actions (the Delivery Program) and it also identifies the need for Councils to ensure that the appropriate resources are available at the right time. (Resourcing Strategy).

The criteria against which IPART is to assess each application are based on what Council is required to do under IP & R. These criteria are:

1. 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 Council's IP&R documents especially in its Delivery Program and Long Term Financial Plan. To establish the need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise.

In *demonstrating this need* Council must indicate the financial impact in its 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*.
- **Special Variation scenario** - the result of implementing the special variation in full is shown and reflected in 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 / project and limited Council resourcing alternatives.

Evidence could also include the assessment of Council's financial sustainability conducted by the NSW Treasury Corporation. (The TCorp Report on Dungog Shire in March 2013 mentioned that Dungog Shire Council's long term sustainability is dependent on Council

being able to increase revenues and that one option is to investigate the possibility of applying for a Special rate Variation.)

2. 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.

3. *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 rate 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.*
4. 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 income.
5. The IP&R documents or 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.

A teleconference with IPART officers, Mr. Derek Francis and Mr. Anthony Rush on October 24 provided clarity on the extent of consultation and required changes to Councils current IP&R documents and confirmed mid December 2017 as the date for advising IPART Council intended to apply for a special variation with mid February 2018 remaining the date for submission of applications.

Upon providing Mr. Rush a precis of Council's current situation he without hesitation said that he had "grave concerns" about Council being able meet the deadline and expressed the view that an application for the 2019/2020 financial year may be a better proposition seeing as though no amendments have been made to the Integrated Planning and Reporting (IP&R) documents that reflect the need for, and purpose of a different revenue path developed as a consequence of engagement with the community.

The IPART officer's advised that one of the criteria to be met during the assessment of the application was for Council to canvass alternatives to rate rises with the community. He intimated that a possible alternative to rate rises was a merger with an adjoining Council and that this alternative and the possibility of the NSW Government's offer of \$15 million should be addressed in any application. It is likely that an application would be more favourably considered if these alternatives were not available or dispelled.

Mr Rush said that as part of the community engagement, Dungog Shire would need to prepare a comprehensive survey document that outlined the different options available. Council would need to explicitly point out the proposed rate increases sought and the impact over the ten year period.

They mentioned a couple of times that Dungog Shire was a special case but when asked about any dispensation for the quality of an application due to a shortage of staff resources as mentioned in IPART's guideline, they said that struggling Councils still have to meet the criteria mentioned in the Guidelines.

They also advised that in the vast majority of cases where special rate variations are not granted, it is because Councils do not undertake proper community consultation. They reiterated that honest discussions must be held with the community to establish the need for and purpose of the proposed rate increase.

Accordingly, given the requirements above and the emphasis IPART place on community engagement and Council's IP&R documentation, time is not sufficient to undertake appropriate and proper discussion with the community, amend council's IP&R documents, place the IP&R documents on public exhibition for 28 days, consider any community comments on the documents prior to adoption and prepare the application for submission before mid February 2018.

Additionally community consultation would need to occur in the lead up to Christmas and the ensuing holiday period in January which is not an opportune time for this activity given the gravity of the subject and would likely draw criticism from both the community and IPART.

IMPLICATIONS

Financial

There will be a cost to undertake proper and effective community consultation and engage appropriate resources to assist in preparing council's application. This cost is non negotiable if council is to be successful with its application, the benefits to the community and the shire of a successful application will far outweigh any of these upfront costs.

Council has produced a deficit budget for a number of years and the infrastructure backlog highlights a significant shortfall in current funding to that required to bring councils assets up to a satisfactory level, I believe any improvement plan for Dungog Shire Council must involve an application for a special variation to general income.

Statutory

Requirements are discussed within the body of the report.

Consultative

The special variation process requires Council to demonstrate the extent of engagement with the community when finalising the submission to IPART.

Senior staff have been communicating with IPART to discuss the process and to enable staff to guide Councillors as regards the process as it will be the Councillors that will have to embrace the process and be able to engage with the community.

Minute No. 37583

RESOLVED on the motion of Cr Connors and seconded by Cr Rayward that:

1. Council continue to investigate a special rate variation to address council's budget deficit and infrastructure backlog with the view to pursue a special rate variation for the 2019/2020 financial year.
2. Council conduct extensive and varied community engagement to determine the communities service level requirements and corresponding special variation increase.
3. Any proposed special variation is incorporated into Council's relevant IP&R documents for approval, exhibition and adoption prior to an application to IPART.