Item 6 Special Rates Variation

FILE REFERENCE

AUTHOR Corporate Services Director

DATE 10 December 2013

STAFF DISCLOSURE OF INTEREST NII

IN BRIEF/ SUMMARY RECOMMENDATION

Pressure has been building for some time for Gwydir Shire to take action to become more sustainable, in particular the recent NSW Tcorp report and the Local Government Review Panel's interim report "Future directions" both highlighted Gwydir's "very weak" sustainability rating.

The Local Government Review Panel has also been promoting that future grant funding should be dependent on councils performance, in particular efforts regarding IP&R planning improvements and moving towards sustainability.

It will take significant effort on many fronts to improve on the very weak sustainability rating and Council must take action if it wishes to survive in anything like its current form.

One of the actions available is to ensure revenues are optimal.

Special rate variations provide an opportunity for councils to vary general income by an amount greater than the annual rate peg. The Independent Pricing and Regulatory Tribunal (IPART) will assess and determine any special variation application by Council.

All special variation applications must comply with guidelines established for applying for special variations by the Division of Local Government (the Division), Department of Premier and Cabinet.

Council's Integrated Planning & Reporting framework (IP & R) provides a mechanism for Council to make decisions regarding the revenue required to meet the community needs and demands, and in particular, whether Council requires a special rate variation to meet those needs.

Gwydir Shire Council's IP & R framework, particularly the Long Term Financial Plan & Asset Management Plans, project a deficit which requires additional funding. Along with other strategies, a special rate variation is a potential option to meet this deficit.

There are two special variation options under the *Local Government Act 1993*. When seeking a special variation, council may apply for either:

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- a one-off percentage increase under section 508(2); or
- multi-year percentage increases (of between two and seven years) under section 508A

The type of special variation that is appropriate for each council will be determined by the revenue requirements of the council, as outlined in the adopted Long Term Financial Plan. The need for additional funding through a special variation must be identified during the Council's IP&R process and the community engagement that underpins the preparation of these documents.

After consideration of Council's IP & R framework it is recommended that Council proceed with a Special Variation Application under Section 508A.

BACKGROUND:

Council's income is capped from year to year by the Rates Capping Take up. If at any time Council (or previous Council's in this case) forgoes the maximum capped rates increase the consequences are ongoing.

Historically this impact has occurred when previous Councils (Yallaroi, Bingara & Barraba) did not take up the maximum rates percentage available or only adopted to take up part of the increase. There effects of these decisions are one of the reasons Council's rates revenue base is at the level which currently exists.

Next year's rate pegging has already been set by IPART at a level lower than expected. This adds further weight to the consideration of a Special Rate Variation application.

The 14/15 "Rate Peg" was made up of three factors:

+ 2.8% Local Government Cost Index increase

0.2% "Productivity Factor" offset

- 0.3% Carbon Price Advance

= 2.3% "Rate Peg" for 14/15

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Types of Special Variation Applications

The following information is an extract from the NSW Office of Premier & Cabinet - Division of Local Government Guidelines for the preparation of an application for a special variation to general income for 2014/2015. (NB – This is an example to demonstrate the implications of different alternatives available to Council under Section 508. The percentages used are not indicative of the final figures Council will be including in any application.

Please read the full Guidelines in attachment 4 for further information.

There are two special variation options under the *Local Government Act 1993*. When seeking a special variation, councils may apply for:

- a one-off percentage increase under section 508(2); or
- multi-year percentage increases (of between two and seven years) under section 508A.

The type of special variation that is appropriate for each council will be determined by the revenue requirements of the council, as outlined in the adopted Long Term Financial Plan. This will depend on a number of factors including:

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

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

In general, a council's general income could follow one of four paths:

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- Scenario 1 (s508A of the Local Government Act 1993): Successive annual percentage increases (between 2 and 7 years), which remain permanently in the rate base;
- Scenario 2 (508(2) permanent): a one-off (single year) percentage increase that remains permanently in the rate base;
- Scenario 3 (508(2) fixed for x years): a one-off (single year) percentage increase
 that remains in the rate base for x years. At the end of the fixed period the rate
 base is adjusted to match the rate peg path; or
- Scenario 4 (Rate Peg): IPART determined rate peg applies each year.

Although scenario 1 refers to permanent successive annual percentage increases under s508A, those increases may also be temporary. That is, they may remain in the rate base for a fixed period, with the rate base being adjusted to match the rate peg path at the end of that period.

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Figure 3.1 below charts the resulting revenue path for a council under each of these scenarios¹.

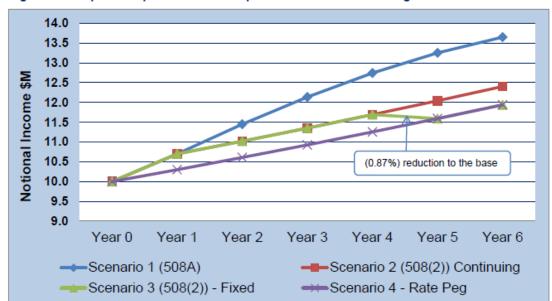


Figure 3.1: Impact of special variation options on a council's rating income

CONCLUSION:

Given the alternatives to available to Council and recommendations contained within IPART & the Division of Local Governments the application for a Special Rate Variation is an option for Council to consider for the purpose of partially funding the projected deficits identified within Council's Long Term Financial Plan.

As also defined by the guidelines, considerable community consultation must also be undertaken to inform and engage the Community in the process.

Council's best option to maximise the benefits would be to apply for a multiple year variation (under Section 508A) which would be permanent. A number of models may be built which can be measured against Council's base line, but initially it is proposed to apply for 2 years increases, both at 5% above the rate pegging, or at a net 5% increase in each year. This will need to be firmed up with community consultation leading up to and forming part of the formal application process.

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¹ This chart is based on the following assumptions:

Scenario 1 – successive increases of 7.0%, 7.0%, 6.0%, 5.0%, 4.0% which are permanently retained in the revenue base permanently. Rate peg applies in Year 6.

Scenario 2 – one off increase of 7.0% in Year 1 which is retained in the income base permanently. Rate peg applies from Year 2.

Scenario 3 – one off increase of 7.0% in Year 1 which is retained in the income base for four years. Rate peg applies from Year 2 but general income returns to the rate peg path in Year 5.

All scenarios - annual rate peg increase of 3.0% in Years 1 to 6.

This will provide for an improved financial position, while allowing time for Council to continue investigation and implementation of other actions and also an improvement in IP&R processes.

Council's position will need to be re-evaluated in the lead up to the conclusion of the variation agreement (assuming it is approved) to determine if further increases are warranted and/or supported.

CONSULTATION:

If adopted the Special Rate Variation Application must be supported by extensive Community Consultation. This consultation is expressly addressed in Attachment 2

STATUTORY ENVIRONMENT:

Local government act and regulations.

POLICY IMPLICATIONS: N/A

FINANCIAL, ECONOMIC AND RESOURCE IMPLICATIONS (including Asset Management):

Delivery Plans and Asset Plans which are not currently fully funded will be assisted by this application to increase Council's Revenue.

STRATEGIC IMPLICATIONS:

This application is in line with Council's Long Term Financial Planning and is one of the strategies that must be considered for Gwydir to become sustainable.

SUSTAINABILITY IMPLICATIONS (Social & Environmental):

This application will also assist Council in the Delivery of Social & Environmental resources identified within the IP & R suite, especially those identified in the Social Plan.

OFFICER RECOMMENDATION

THAT Council note the Special Variation Report, further;

THAT Council resolve to apply for a special rates variation commencing in the 2014/15 Financial Year, and

THAT Council authorise the General Manager to inform the

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Independent Pricing & Regulatory Tribunal (IPART) of Council's intention to apply for a Special Rate Variation

ATTACHMENTS

<u>AT-1</u>	IPART Fact Sheet - Our role in local government rate-setting	9 Pages
	- special variations	
<u>AT-2</u>	IPART Fact Sheet - Community awareness and engagement	7 Pages
	for special variation applications	
<u>AT-3</u>	DLG Circular 13-44 – Special Rate and Minimum Guidelines	1 Page
	and Process for 2014/2015	
<u>AT-4</u>	Guidelines for the preparation of an application for a special	22
	variation to general income	Pages
	for 2014/2015	
<u>AT-5</u>	IPART Fact Sheet - Rate peg for NSW councils for 2014/15	3 Pages

COUNCIL RESOLUTION MINUTE 370/13

THAT Council note the Special Variation Report, further;

THAT Council resolve to apply for a special rates variation commencing in the 2014/15 Financial Year, and

THAT Council authorise the General Manager to inform the Independent Pricing & Regulatory Tribunal (IPART) of Council's intention to apply for a Special Rate Variation.

(Moved Cr Doering, seconded Cr Dixon)

Cr Peter Pankhurst requested to have his vote against the resolution noted.

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