DECISION OF 3710th COUNCIL MEETING HELD ON MONDAY 29 OCTOBER 2018

366. GMO01: Proposed Special Variation to General Income and Minimum Rate Increase Applications - Intent to Apply

Report of Jenny Gleeson, Manager Integrated Planning and Special Projects

Council's revised Integrated Planning and Reporting suite of plans were adopted on 25 June 2018. At this meeting Council resolved to adopt the *North Sydney Council Resourcing Strategy 2018/19-2027/28*, inclusive of Scenario 3 as the preferred financial scenario which requires a special variation to rates (also known as a special rate variation or SRV).

The purpose of this report is to seek a Council resolution to formally apply for a SRV in accordance with the SRV application process. It is recommended that the application be a combined application to enable the increase to be applied equally to the minimum general rate.

The current adopted Resourcing Strategy and Delivery Program provided scenarios for a seven (7) year SRV, commencing 2019/20. Following feedback from the community it is proposed to reduce the application period to five (5) years and provide more specific information on the service reduction that could be implemented to address the funding shortfall if an SRV is not obtained (Scenario 1) and the additional works that would be undertaken over and above the retention of service levels under the two SRV scenarios (Scenarios 2 and 3). Council is therefore requested to:

a) endorse the Amended Resourcing Strategy, the Amended Delivery Program and the Draft Revenue Policy 2019/20 for public exhibition;
b) endorse the Engagement Strategy detailing the community engagement/ consultation to be undertaken between 1 November 2018 and 16 January 2019; and
c) note that the engagement outcomes will need to be reported to the first Council meeting of 2019 (to be held in late January 2019), so that the Council can determine whether to proceed with submitting an application by the deadline of 11 February 2019.

Resolving intent to apply is the first step in preparing the application to the Independent Pricing and Regulatory Tribunal (IPART). Councils intending to apply for a SRV and minimum rate increase must notify IPART of their intention to apply by 30 November 2018. The notification to IPART must include the percentage amount of the intended SRV or minimum rate and the purpose of the funds raised from the SRV.

Should Council resolve intent to apply for a SRV and/or minimum rate increase, extensive community consultation will be undertaken. A draft Community Engagement Strategy has been prepared in accordance with Council's *Community Engagement Protocol*, outlining how the community will be informed of the proposed rate increase, including the need for and extent of a rate rise, as well as how the community can have a say, providing feedback on the proposal including willingness to pay.

Funding is available within the 2018/19 budget, including carry over of $45,000 allocated in 2017/18 for the periodic Customer Satisfaction Survey which has been deferred and the balance from the Community Engagement/Consultation budget.

The full financial implications of the various scenarios are addressed in detail within the attached amended Delivery Program and Resourcing Strategy. In summary:

- Scenario 1 (annual rate peg increase) would result in Council being required to address a funding shortfall of $6.7 million over 5 years. This would result in a reduction in service levels and prevent Council from applying additional funding to address the increasing amount of public infrastructure categorised as condition 5 (very poor condition requiring significant renewal - very high risk).
- Scenario 2 (5.5% per annum SRV for 5 years, inclusive of the annual rate peg) would enable maintenance of existing services, increase asset renewals by an additional $9.3 million over the life of the SRV and allocate an additional $5.8 million to complete high priority projects, as specified in the amended Delivery

Program.

- Scenario 3 (7% per annum SRV for 5 years, inclusive of the annual rate peg) would enable maintenance of existing services, increase asset renewals by an additional $14.3 million over the life of the SRV and allocate an additional $12.75 million to complete high priority projects, as specified in the amended Delivery Program.

Council's *Delivery Program 2018/19-2020/21* and *Resourcing Strategy 2018-2028*. (including the Long Term Financial Plan) have been developed in accordance with Integrated Planning and Reporting (IPR) framework guidelines and the *North Sydney Community Strategic Plan 2018-2028*.

Scenario 1 is not considered financially sustainable as further reductions in expenditure or revenue increases would still be required at the end of the 5-year period and infrastructure condition would deteriorate from lack of renewal funding. Scenarios 2 and 3 would enable Council to remain financially sustainable over the medium to long term. Scenario 3 provides greater capacity to address deteriorating asset condition, meet high community expectations with delivery of public space improvements and place Council in a more robust position to respond to any emerging financial shocks.

Recommending:

1. THAT Council confirms its intent to apply to IPART for a SRV and minimum rate increase effective from 2019/20.

2. THAT the Amended Resourcing Strategy (inclusive of reduced SRV duration under Scenarios 2 and 3, from 7 to 5 years), the Amended Delivery Program and the Draft Revenue Policy 2019/20 be endorsed for public exhibition from 1 November 2018 to 16 January 2019.

3. THAT the Community Engagement Strategy be adopted, and the engagement period regarding the proposed SRV and minimum rate increase run from 1 November 2018 to 16 January 2019.

4. THAT the engagement outcomes be reported to the first Council meeting of 2019 (late January) and for Council to determine whether to proceed with submitting an application to IPART for a SRV and minimum rate increase effective from 2019/20.

Mr D Macdonald and Ms J Christie addressed Council.

The Recommendation was moved by Councillor Mutton and seconded by Councillor Drummond.

The Motion was put and **carried**.

Voting was as follows: For/Against 6/4

Councillor	Yes	No	Councillor	Yes	No
Gibson	Y		Barbour	Y	
Beregi		N	Drummond	Y	
Keen	Y		Gunning		N
Brodie	Y		Mutton	Y	
Carr		N	Baker		N

RESOLVED:

1. THAT Council confirms its intent to apply to IPART for a SRV and minimum rate increase effective from 2019/20.

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4. THAT the engagement outcomes be reported to the first Council meeting of 2019 (late January) and for Council to determine whether to proceed with submitting an application to IPART for a SRV and minimum rate increase effective from 2019/20.

Report to General Manager

Attachments:
1. Scenarios Comparison Tables
2. Amended Resourcing Strategy
3. Amended Delivery Program
4. Draft Revenue Policy 2019/20
5. Draft Community Engagement Strategy

SUBJECT: Proposed Special Variation to General Income and Minimum Rate Increase Applications - Intent to Apply

AUTHOR: Jenny Gleeson, Manager Integrated Planning and Special Projects

ENDORSED BY: Ken Gouldthorp, General Manager

EXECUTIVE SUMMARY:

Council's revised Integrated Planning and Reporting suite of plans were adopted on 25 June 2018. At this meeting Council resolved to adopt the *North Sydney Council Resourcing Strategy 2018/19-2027/28*, inclusive of Scenario 3 as the preferred financial scenario which requires a special variation to rates (also known as a special rate variation or SRV).

The purpose of this report is to seek a Council resolution to formally apply for a SRV in accordance with the SRV application process. It is recommended that the application be a combined application to enable the increase to be applied equally to the minimum general rate.

The current adopted Resourcing Strategy and Delivery Program provided scenarios for a seven (7) year SRV, commencing 2019/20. Following feedback from the community it is proposed to reduce the application period to five (5) years and provide more specific information on the service reduction that could be implemented to address the funding shortfall if an SRV is not obtained (Scenario 1) and the additional works that would be undertaken over and above the retention of service levels under the two SRV scenarios (Scenarios 2 and 3). Council is therefore requested to:

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Should Council resolve intent to apply for a SRV and/or minimum rate increase, extensive community consultation will be undertaken. A draft Community Engagement Strategy has been prepared in accordance with Council's *Community Engagement Protocol*, outlining how the community will be informed of the proposed rate increase, including the need for and extent of a rate rise, as well as how the community can have a say, providing feedback on the proposal including willingness to pay.

FINANCIAL IMPLICATIONS:

Funding is available within the 2018/19 budget, including carry over of $45,000 allocated in 2017/18 for the periodic Customer Satisfaction Survey which has been deferred and the balance from the Community Engagement/Consultation budget.

The full financial implications of the various scenarios are addressed in detail within the attached amended Delivery Program and Resourcing Strategy. In summary:

- Scenario 1 (annual rate peg increase) would result in Council being required to address a funding shortfall of $6.7 million over 5 years. This would result in a reduction in service levels and prevent Council from applying additional funding to address the increasing amount of public infrastructure categorised as condition 5 (very poor condition requiring significant renewal - very high risk).
- Scenario 2 (5.5% per annum SRV for 5 years, inclusive of the annual rate peg) would enable maintenance of existing services, increase asset renewals by an additional $9.3 million over the life of the SRV and allocate an additional $5.8 million to complete high priority projects, as specified in the amended Delivery Program.
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Comment by Responsible Accounting Officer:

Council's *Delivery Program 2018/19-2020/21* and *Resourcing Strategy 2018-2028*. (including the Long Term Financial Plan) have been developed in accordance with Integrated Planning and Reporting (IPR) framework guidelines and the *North Sydney Community Strategic Plan 2018-2028*.

Scenario 1 is not considered financially sustainable as further reductions in expenditure or revenue increases would still be required at the end of the 5 year period and infrastructure condition would deteriorate from lack of renewal funding. Scenarios 2 and 3 would enable Council to remain financially sustainable over the medium to long term. Scenario 3 provides greater capacity to address deteriorating asset condition, meet high community expectations with delivery of public space improvements and place Council in a more robust position to respond to any emerging financial shocks.

RECOMMENDATION:

1. THAT Council confirms its intent to apply to IPART for a SRV and minimum rate increase effective from 2019/20.

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3. THAT the Community Engagement Strategy be adopted, and the engagement period regarding the proposed SRV and minimum rate increase run from 1 November 2018 to 16 January 2019.

4. THAT the engagement outcomes be reported to the first Council meeting of 2019 (late January) and for Council to determine whether to proceed with submitting an application to IPART for a SRV and minimum rate increase effective from 2019/20.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

Direction:	5. Our Civic Leadership
Outcome:	5.1 Council leads the strategic direction of North Sydney

BACKGROUND

Council's final (post exhibition) Integrated Planning and Reporting (IPR) Framework (suite of plans) were presented to the Council at its meeting of 25 June 2018. At this meeting Council resolved to adopt:

- the *North Sydney Community Strategic Plan 2018-2028;*
- the *North Sydney Council Resourcing Strategy 2018/19-2027/28*, inclusive of Scenario 3 as the preferred financial scenario which requires a SRV; and
- the *North Sydney Council Delivery Program 2018/19-2020/21* and *Operational Plan 2018/19*, including the revised forecast estimates for 2019/20 (Year 2) and 2020/21 (Year 3) prepared under Scenario 3 of the Resourcing Strategy.

A SRV allows NSW councils to increase their general income above the rate peg.

In 2010 IPART was given the responsibility of setting the annual amount by which NSW councils can increase their general income each year (known as the rate peg). IPART also has responsibility for assessing SRV and minimum rate increase applications. Previously these responsibilities sat with the Office of Local Government (OLG).

There are two types of SRVs that a council may apply for under the *Local Government Act 1993*:

- a single year percentage variation under Section 508(2); or
- successive annual percentage increases over a period of between 2 and 7 years under Section 508A.

Applications for each type may be either permanent i.e. the rates base stays at the higher level following the SRV's expiry, or temporary i.e. the rates base is adjusted to match the rate peg path after the SRV expires.

Section 548 of the *Local Government Act 1993* allows a council to specify a minimum amount of a rate to be levied on each parcel of land. A council must obtain approval on every occasion that it wishes to increase the minimum amount on special rates above the statutory limit. Importantly, this applies even if the increase is by the rate peg percentage or if the council is seeking a SRV increase.

A council making a SRV application and proposing to increase its minimum rate in the same rating year/s may submit a combined SRV and minimum rate application addressing both SRV and minimum rate criteria. Combined applications are due 11 February 2019.

CONSULTATION REQUIREMENTS

Community engagement will be undertaken in accordance with Council's Community Engagement Protocol. The proposed Community Engagement Strategy (Attachment 5) is detailed in the body of this report.

SUSTAINABILITY STATEMENT

The sustainability implications were considered and reported on during the initiation phase of this project, and have been revisited/further reviewed as detailed in this report.

DETAIL

1. Special Rate Variation Proposal

Whilst the Council has adopted Scenario 3 as its preferred scenario, it has not yet formally determined its "intent to apply" for a SRV. Formal resolution of Council's intent is required. The deadline for informing IPART of Council's intent to apply is 30 November 2018.

1.1 Intent to Apply

Resolving intent to apply enables extensive consultation to be undertaken to obtain community feedback regarding the proposal, prior to submitting the detailed application. As outlined below, following conclusion of the consultation period all feedback will be collated, analysed and reported to the Council for consideration. It is at this point (late January 2019) that Council needs to determine if it will proceed with lodging the application by the deadline of 11 February 2019.

1.2 Assessment Criteria

The 2019/20 Application Guidelines were released by the OLG on 8 October 2018. The following timetable, which was initially reported to Council on 25 June 2018, outlines the key steps/deadlines involved in preparing a SRV/minimum rate increase application:

Steps	Timing
1. Council to resolve 'intent' to apply for SRV and minimum rate increase	29 October 2018
2. Start community engagement	1 November 2018
3. Intention to apply submitted to IPART (deadline)	By 30 November 2018
4. End community engagement	16 January 2019
5. Engagement outcomes reported to Council. Council determines whether to proceed with application.	29 January 2019 (TBC)
6. Prepare combined SRV and minimum rate increase application	January to early February 2019
7. Combined SRV and minimum rate increase application applications close	11 February 2019
8. Determinations announced by IPART	14 May 2019

IPART will assess SRV applications against the following criteria (in addition to any other matters which IPART considers relevant):

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 the council's IPR documents.

2. *Evidence that the community is aware of the need for and extent of a rate rise.*
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.*
4. *The relevant Integrated Planning and Reporting (IPR) documents must be exhibited (where required) approved and adopted by the council before applying to IPART for a special variation to its general income.*
5. *The IPR documents or the council's application must explain the productivity improvements and cost containment strategies realised in the past years and plans to realise over the proposed special variation period.*
6. *IPART's assessment of the matters set out in criteria no. 3.*

1.3 Demonstrated Need

Several options were considered prior to considering a SRV. Rates and annual charges comprise approximately 45% of Council's total revenue. Council has for many years had an emphasis on user pays fees and charges (policy position adopted in the 1980s). Whilst the Council continually explores new opportunities for additional user pays fees, the need to increase renewal expenditure on infrastructure assets and the desire to provide improved public recreation space is placing greater pressure on general rate revenue.

Other revenue streams include available grant funding, developer contributions, voluntary planning agreements and Council's modest investment portfolio. Council continuously pursues new revenue options when available.

Council has also resolved to borrow for several projects, choosing to do so for income generate projects only, so that the loans can be repaid. All scenarios include proposed borrowings in 2020/21 to provide funds for the redevelopment of the North Sydney Olympic Pool complex.

It is also important to note that the previous SRV, of 5.5% per annum compounded for 7 years (expiring 30 June 2018), was not applicable to ratepayers on the minimum rate. This meant that the previous variation was not paid by the majority of ratepayers - at the time 82.36% residential ratepayers and 41.13% business ratepayers were paying the minimum rate.

The key purpose of the proposed SRV under the preferred option (Scenario 3) in the *North Sydney Council Resourcing Strategy 2018/19-2027/28* is to:

- maintain existing services;
- enhance financial sustainability;
- increase infrastructure renewal expenditure to address deteriorating asset conditions; and
- deliver a number of high priority public domain and public recreation projects including upgrades to Bradfield Park South and St Leonards Park.

The need for a SRV was initially foreshadowed in Council's previous Resourcing Strategy (2013), in which the long term financial modelling under the then 'preferred' scenario, forecast the net surplus gradually falling over the remaining life of the plan (ending 2022/23), and deficits before capital grants and contributions following cessation of the previous approved SRV, which expired on 30 June 2018. IPART also considered it probable that the Council would need to seek a further increase in the future, as noted in its determination of Council's 2011/12 SRV application, approved in June 2011.

The need for the current proposed SRV was communicated to the Council and the community via the draft *North Sydney Council Resourcing Strategy 2018/19-2027/28,* which was exhibited between 10 May and 7 June 2018. The following is an extract from the document which was ultimately adopted on 25 June 2018, with Scenario 3 as the preferred scenario:

Scenario 1 is based on revenue being limited to the annual rate peg, which had been modelled at 2.3% till 2021/22 and 2.8% thereafter to 2027/28[1]. This is not the ideal scenario as it will result in a decline in Council's capacity and will not meet the expectations of the community as reflected in the Community Strategic Plan consultation i.e. we cannot continue to deliver services and infrastructure at the rate of the past three years and remain financially viable.

Scenarios 2 and 3 are both based on rate revenue being restricted to the annual rate peg, modelled at 2.3% in 2018/19 followed by increases of 5.5% and 7% thereafter (for 7 years) per scenario i.e. both scenarios require a special variation which is inclusive of the annual rate peg. Scenario 2 would allow Council to maintain existing services but limit capacity to maintain infrastructure to the high standard demanded by the community and provide minimal capacity to expand services. Scenario 3 would enable the high level of services demanded by the community to be maintained, maintenance of infrastructure to a high standard and some capacity to expand services to meet growth and changing demands.

Should the Council resolve to propose a rate variation above the rate peg (effective from 2019/20) in order to follow Scenario 2 or 3, extensive consultation would need to occur with ratepayers in late 2018.

1.3.1 Asset Management and Delivery

The management of community assets is a key function of the Council. North Sydney local government area (LGA) provides assets which are utilised by our residents, businesses and their workers, students and visitors.

The provision of assets maintained to meet community needs and expectations is fundamental to Council's overall service delivery. Council has been facing an on-going funding shortfall in addressing the required expenditure on asset maintenance and renewal. This is due to Council maintaining a balanced budget position from year to year, limiting expenditure to the level of income available. This ongoing structural funding shortfall resulted in an increasing asset renewal backlog and deterioration in asset conditions, which is impacting on Council's long term financial sustainability.

Between 2014/15 to 2017/18 capital works expenditure was accelerated. This decision occurred in the context of the State Government's then proposed forced amalgamation (Fit for the Future), with the intent to ensure funds raised by North Sydney ratepayers were spent in the North Sydney LGA.

This strategy involved expending internally restricted reserves, which have now been allocated, excluding employee entitlements and loan repayments. This strategy increased capital expenditure including some asset renewals but with an emphasis on new projects, such as the Coal Loader Platform, Brett Whiteley Place and the CBD footpath upgrades.

1 Modelling estimated the annual rate peg which at that time had not been announced; and reflects the increase in costs to Council such as materials and labour.

The revised Community Strategic Plan (2018), and community engagement leading to that Strategy, has reinforced the North Sydney community's desire for high service levels. Consistently recurring feedback from the community through other engagements has identified the desire to improve public domain and public recreation space, this includes the periodic Customer Satisfaction Surveys and project specific consultations e.g. for plans of management.

To sustain and deliver expected levels of service/improved asset conditions, Council's focus is to increase expenditure on infrastructure maintenance and renewal in addition to improving its asset management capability and balancing this with the need for expenditure on the creation of new assets.

1.3.1.1 Infrastructure Condition

Increasing emphasis on asset management and asset condition reporting promoted by the OLG and relevant accounting standards has resulted in Council more accurately identifying infrastructure assets and their condition. This has included undertaking condition audits on major asset classes, inclusive of the most extensive audits conducted to date. The findings of the audits have provided Council with more accurate information on the current condition of its infrastructure assets, with a replacement cost $1.1 billion as per Note 9a in the Audited Financial Statements 30 June 2018. This information is detailed in the revised Asset Management Plans per asset class.

Special Schedule 7 of the 2017/18 Financial Statements identified the estimated cost to bring infrastructure assets to a satisfactory standard was $45 million. This is reflective of the value of condition 5 (very poor) assets. These are the assets that require priority attention, to either improve their condition through remedial works and/or replacement. The combined total estimated cost to bring condition 4 (poor) and condition 5 assets to a satisfactory standard was $89.6 million, as shown in the following table.

Asset Category	Asset Sub Category	Condition 4	Condition 5	Total Condition 4 and 5
Roads	Local Roads + Regional Roads	$6.3 million	$4.7 million	$10.9 million
	Kerb and Gutter	$4.4 million	$0.7 million	$5.1 million
	Traffic Facilities	$0.5 million	$0.1 million	$0.6 million
	Street Furniture	$1 million	$0.1 million	$1.1 million
Footpaths	(Footpaths) Roads + Parks + Walking Tracks	$4.3 million	$0.5 million	$4.9 million
Stormwater Drainage	Stormwater and Drainage Assets	$3.3 million	$23.9 million	$27.3 million
	Gross Pollutant Traps	$0.4 million	$1.1 million	$1.5 million
Other Infrastructure	Public Lighting (Roads + Parks)	$0.5 million	$2.8 million	$3.4 million
	Fences (Roads + Parks)	$1 million	$0.2 million	$1.3 million
	Retaining Walls (Roads + Parks)	$7 million	$1.2 million	$8.2 million
	Seawalls	$10.7 million	$0.6 million	$11.3 million
	Marine Structures	$1.7 million	$0.7 million	$2.4 million
Property	Buildings	$2.1 million	$0.1 million	$2.2 million
	Other Open Space/Rec	$0.8 million	$7.9 million	$8.7 million
	Land Improvements	$0.3 million	$0.4 million	$0.8 million
	TOTAL	**$44.6 million**	**$45 million**	**$89.6 million**

The following table identifies the additional funding required to address assets currently reported as being in condition 4 and 5 over and above the amounts currently allocated in the three-year estimates (2018/19 to 2020/21) for Scenario 1.

Asset Category	**Condition 4 and 5 Assets Excluding funded renewal in 2018/19 to 2020/21**
Stormwater Assets	$22.8 million
Public Lighting	$3.14 million
Sea Walls	$10.12 million
Wharfs and Jetties	$1.51 million
Retaining Walls	$6.13 million
Footpaths	$5.14 million
Kerb and Gutter	$2.6 million
Fences and Bollards	$0.34 million
Gross Pollutant Traps	$0.818 million
Roads	$1.04 million
Total	**$53.64 million**

1.3.2 Financial Scenarios Modelling

The three financial scenarios of the *North Sydney Council Resourcing Strategy 2018/19-2027/28* will have different impacts on:

- long term financial sustainability;
- the assets that Council manages on behalf of the community;
- the quality/level of service that can be delivered into the future; and
- the requirement for service level reductions.

In considering its preferred funding option, Council noted that Scenario 1 would require service reductions in addition to cost containment and efficiency savings. In contrast, the two SRV options (Scenarios 2 and 3) do not require a reduction in service levels and provide additional revenue to fund asset renewal and high priority capital projects.

This section quantifies and explains these scenarios. The following table provides a summary overview, showing the total amounts per annum that Council will need to reduce its expenditure by under Scenario 1, and the additional funds to be made available through a SRV under Scenarios 2 and 3. These amounts are over and above the funding requirements for existing services i.e. these are in addition to what has already been budgeted for in Scenario 1. Whilst Scenarios 2 and 3 were originally modelled on SRVs of 7 years duration, it is now proposed that the duration be reduced to 5 years per scenario, as detailed further in this report; the shorter duration enables more certainty around medium-term planning, and enables the next term of Council to consider its options under a revised IPR planning cycle. The following table identified the funding shortfall or additional funding available allowing for existing service levels under the three scenarios.

	Year 1 2019/20 ($)	Year 2 2020/21 ($)	Year 3 2021/22 ($)	Year 4 2022/23 ($)	Year 5 2023/24 ($)	TOTAL ($)
Scenario 1 - cuts required to achieve a balanced budget	0	(1,068,566)	(607,036)	(1,825,473)	(3,242,869)	(6,743,944)
Scenario 2 - additional funds available	2,434,200	1,536,258	3,460,547	3,772,491	4,006,208	15,209,704
Scenario 3 - additional funds available	3,104,277	2,960,398	5,730,348	6,988,245	8,277,466	27,060,734

Each scenario (funding option) is described in detail below:

1.3.2.1 Scenario 1

Under this funding option, rates would only increase by the rate peg amount. This funding option would have financial sustainability implications when factoring in maintaining service levels and maintaining satisfactory condition of Council's infrastructure. This option would require some difficult decisions to be made about the future of Council's current services and programs, to find the funds needed to deliver a balanced budget. A total of $6,743,944 in expenditure or non-rate revenue increases would be required to achieve a balanced budget over the 5 years i.e. approximately $1,348,788 per annum for 5 years. Additionally, further reductions or revenue increase would be required beyond 2023/24 to continue to maintain a balanced budget.

Potential areas for cost savings have been identified in the following areas:

- verge mowing;
- street cleaning;
- graffiti removal;
- tree planting;
- events, subsidies;
- library;
- economic development;
- grants for community groups and centres;
- precinct system; and
- administration.

These would however also result in reduction in service levels. Council would also have minimal capacity to fund future capital projects from own source revenue and the portion of assets in poor state would continue to grow.

In the currently adopted Resourcing Strategy, Scenario 1 was modelled on a 3% per annum increase until 2021/22 and 2.8% per annum thereafter to 2027/28. The 2019/20 rate peg has since been announced as 2.7% and councils have been advised to assume 2.5% for 2020/21 and future years. This scenario requires updating in the Resourcing Strategy, and the proposed amendments are reflected in Attachment 1.

1.3.2.2 Scenario 2 (5.5% per annum SRV for 5 years, inclusive of the annual rate peg)

Scenario 2 would enable Council to maintain existing service levels plus generate $15,209,704 total additional funds available over 5 years. Scenario 2 would enable the Council to spend an additional $9.3 million on addressing the condition 5 assets, and the remaining funds would enable the Council to undertake additional priority capital works. The proposed allocation of the additional revenue generated from this funding option includes:

- $9.3 million for asset renewals
- $3 million for Neutral Bay and Cremorne village upgrades
- $2 million for Bradfield Park South masterplan
- $700,000 for playground upgrades in Sirius Street Reserve, Grasmere Children's Park and Merrett Playground
- $180,000 for Badangi Reserve walking trail upgrade

1.3.2.3 Scenario 3 (7% per annum SRV for 5 years, inclusive of the annual rate peg)

Scenario 3 would enable Council to maintain existing service levels plus generate $27,060,734 total additional funds over 5 years. Scenario 3 would enable the Council to spend a total additional $14.3 million on addressing the condition 5 assets, and the remaining funds would enable the Council to undertake additional priority capital works in addition to those listed in Scenario 2. The proposed allocation of the additional revenue generated from this funding option includes:

- everything under Scenario 2 and
- $5 million additional for asset renewals
- $4.8 million for St Leonards Park masterplan
- $1 million for Kirribilli and McMahons Point village upgrades
- $750,000 for improved drainage at Primrose Park and upgraded pedestrian access at Anderson Park
- $300,000 for walking trail upgrades in Primrose Park, Gore Cove to Smoothey Park and Brightmore Reserve

Scenario 3 provided for a longer term revenue solution which would enable Council to respond in a meaningful way to asset management and the desired outcomes of the *North Sydney Community Strategic Plan 2018-2028.* It is for this reason Council identified Scenario 3 as its preferred option.

1.3.3 Impact on Ratepayers

1.3.3.1 Rating Comparisons

North Sydney Council has residential and business rate categories, both of which are subject to a minimum rate. For properties with a land value of approximately $605,000 or less, the minimum rate amount is applicable. For properties above this land value, the rates are calculated on the applicable Valuer General's land value and a cents in the dollar allocation. The majority of strata titled residential units in particular are subject to the minimum rate.

North Sydney's current rates are comparably low. In 2016/17 average residential rates in the North Sydney LGA were $751.17 ($724.28 in 2015/16), these were lowest compared to the OLG Group 3 average of $993.74 ($984.35 in 2015/16), and business rates were $3,695.64 ($3,502.07 in 2015/16), compared to the OLG Group 3 average of $6,351.18 ($5,768.33 in 2015/16). These figures do not include the Domestic Waste Management Charge (DWMC) or the Stormwater Management Charge (SWMC).

The following table compares North Sydney's minimum and average residential rates to neighbouring councils for the current and previous financial years. Note: 76% of residential ratepayers currently pay the minimum ordinary rate.

LGA	OLG Group	2017/18 Minimum Rate - Residential General	2018/19 Minimum Rate - Residential General	2017/18 Average Rate - Residential General	2018/19 Average Rate - Residential General
North Sydney	3	$514	$526	$763.30	$772.47
Willoughby	3	$815.25	$834	$996	$1,019
Lane Cove	2	$886	$867	$1,212.57	$1,226.39
Mosman	2	50% Base $695 AV[2]	50% Base $710 AV	$1,390	$1,420
Sydney	1	$544.55	$557	$692	$756

The following table compares North Sydney's minimum and average businesses rates to neighbouring councils for the current and previous financial years. Note: 33% of business ratepayers currently pay the minimum ordinary rate.

LGA	OLG Group	2017/18 Minimum Rate - Businesses General	2018/19 Minimum Rate - Businesses General	2017/18 Average Rate - Businesses General	2018/19 Average Rate - Business General
North Sydney	3	$514	$526	$4,258.31	$4,798.54
Willoughby	3	$1,164.30	$1,191.10	$6,082	$6,222
Lane Cove	2	$866	$886	$4,644.15	$4,817.83
Mosman	2	40% Base $1,208 AV	40% Base $1,238 AV	$3,021	$3,097
Sydney - CBD	1	$696.70	$712.70	$18,631	$21,063
Sydney - Ordinary		$696.70	$712.70	$5,474	6,172

1.3.3.2 Proposed Impact on Ratepayers

The proposed SRV will require ratepayers to pay increased annual rates over the next 5 years, from 2019/20. The following table provides a high level comparative overview of the financial options and the impact on ratepayers:

	Scenario 1	Scenario 2	Scenario 3
Annual Increase	rate peg only (2.7% in 2019/20)	5.5% (2.7% rate peg + 2.8%)	7% (2.7% rate peg + 4.3%)
Cumulative increase over 5 years - Average Residential Rate	14.1% $115	28.9% $253	36.4% $328
		Additional over the rate peg $253 - $115 = $138	Additional over the rate peg $328 - $115 = $213
Cumulative increase over 5 years - Average Business	10.6% $521	25.2% $1,321	32.7% $1,764

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	Scenario 1	Scenario 2	Scenario 3
Rate		Additional over the rate peg $1,321 - $521 = $800	Additional over the rate peg $1,764 - $521 = $1,243

1.3.3.2.1 Residential Ratepayers

The following table calculates the average annual and weekly equivalent residential rating increases for each scenario.

Scenario 1 - rate peg only					Scenario 2 - 5.5% inclusive of rate peg					Scenario 3 - 7% inclusive of rate peg				
2019/20	2020/21	2021/22	2022/23	2023/24	2019/20	2020/21	2021/22	2022/23	2023/24	2019/20	2020/21	2021/22	2022/23	2023/24
Average Annual Increase total (inclusive of rate peg) - dollar change from each previous year														
$32	$20	$21	$21	$22	$54	$46	$48	$51	$54	$65	$59	$64	$67	$73
Average Annual Increase above the rate peg														
$0	$0	$0	$0	$0	$23	$26	$27	$30	$32	$34	$39	$43	$46	$51
Average Weekly Increase total (inclusive of rate peg)														
$0.60	$0.39	$0.40	$0.41	$0.42	$1.03	$0.88	$0.93	$0.98	$1.04	$1.26	$1.14	$1.22	$1.30	$1.40

1.3.3.2.2 Business Ratepayers

The following table calculates the average annual and weekly equivalent business rating increases for each scenario.

Scenario 1 - rate peg only					Scenario 2 - 5.5% inclusive of rate peg					Scenario 3 - 7% inclusive of rate peg				
2019/20	2020/21	2021/22	2022/23	2023/24	2019/20	2020/21	2021/22	2022/23	2023/24	2019/20	2020/21	2021/22	2022/23	2023/24
Average Annual Increase total (inclusive of rate peg) - dollar change from each previous year														
$28	$119	$121	$124	$128	$157	$268	$283	$298	$315	$226	$346	$370	$396	$424
Average Annual Increase above the rate peg														
$0	$0	$0	$0	$0	$129	$149	$161	$174	$187	$199	$227	$248	$273	$296
Average Weekly Increase total (inclusive of rate peg)														
$0.54	$2.28	$2.34	$2.40	$2.46	$3.02	$5.16	$5.44	$5.74	$6.05	$4.36	$6.65	$7.12	$7.62	$8.15

1.3.4 Consideration of Affordability, Capacity and Willingness to Pay

The following is a summary of key metrics from the latest (2016) ABS data for North Sydney LGA in respect to household income, mortgages and rent:

- 42% of households earned income of $2,500 or more per week and 9.6% were low income households (earning less than $650 per week), compared with 28.3% and 15.1% respectively for Greater Sydney;
- median weekly household income is $2,356, compared with $1,745 for Greater Sydney;
- median weekly mortgage payment is $597, compared with $495 for Greater Sydney;
- households with a mortgage is 20%, compared with 32% for Greater Sydney; and
- median weekly rent is $582, compared with $447 for Greater Sydney.

The North Sydney LGA has a 2016 Socio-Economic Indexes for Areas (SEIFA) ranking of 127 which indicates it is one of the least disadvantaged council areas in NSW. North Sydney's 2016

SEIFA Index of Disadvantage (IRSED) was 1108, compared to Mosman 1115, Lave Cove 1111, Willoughby 1083, City of Sydney 1027. An area with an IRSED of 1,000 is considered average while a lower score indicates that the area is experiencing high levels of disadvantage.
The level of outstanding rates is also taken into consideration. North Sydney Council's outstanding rates ratio for 2017/18 was 1.29% (1.13% in 2016/17 and 1.05% in 2015/16). This ratio assesses the impact of uncollected rates and annual charges on liquidity and the efficiency of a council's debt recovery effort. The industry benchmark for metropolitan councils is to achieve an annual ratio of less than 5% i.e. at the end of the year, all of the rates and charges levies for that less, less than 5% should remain uncollected.

Council's *Debt Recovery Policy* includes provisions for payment arrangements where ratepayers are experiencing financial difficulties. The Policy also includes specific provisions for eligible pensioners.

Council's *Financial Hardship Policy* covers situations where residential ratepayers believe that they have suffered financial hardship by way of Council utilising a General Revaluation for rating purposes for the first time i.e. hardship caused from the use of new valuations.

The above information will be taken into consideration by IPART should Council apply for a SRV. Additionally, IPART will take into consideration desired levels of services and 'willingness' to pay. The purpose of the proposed engagement program, to be implemented should the Council resolve intent to apply for a special variation, is to seek community feedback on the proposed rate increases under all options. In particular, it will seek feedback on both the service level preferred by the community and willingness to pay.

2. Minimum Rate Increase Proposal

It is proposed that the minimum ordinary rates be increased proportionally to the selected scenario. That is under:

- Scenario 1 by the permissible annual rate peg;
- Scenario 2 by 5.5% per annum for 5 years; and
- Scenario 3 by 7% per annum for 5 years.

At present ratepayers that pay the minimum ordinary rate account for 76% of total residential assessments and 33% of total business assessments. In order to maintain the same relative distribution of the rating burden between minimum and other ratepayers, any percentage increase associated with a SRV should be consistently applied to all rateable properties. Council services and facilities are made available to all ratepayers and as such the funding burden increase should be proportionally distributed.

This is particularly the case given the distortion that occurs between rates obtained from strata titled (medium and high density) properties, the demand to service the residents of these properties and capacity to pay. The current legislated rating system limits Council to applying a single residential rate which tends to place a higher burden on stand-alone housing, even though the market value of strata titled apartments may be comparable or even higher. It is this limitation that has resulted in such a high portion of properties being on minimum general rates.

2.1 Assessment Criteria

IPART will assess applications for minimum rates above the statutory limit against the following criteria (in addition to any other matters which IPART considers relevant):

1. *the rationale for increase minimum rates above the statutory amount,*
2. *the impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category, and*
3. *the consultation that council has undertaken to obtain the community's views on the proposal.*

Councils applying for a SRV are generally encouraged to apply the same percentage increase to both minimum rates and general income, and maintain the same relative distribution of the rating burden between minimum and other ratepayers that were levied the previous year. Generally, where a council applies for a SRV and also applies to increase the minimum ordinary rate by the same percentage, IPART will issue an instrument under Section 548(3) to permit the council to apply that same increase.

3. Proposed Amendments to Council's Resourcing Strategy

As previously noted, on 11 September 2018, IPART set the 2019/20 rate peg at 2.7%. On 8 October 2018, OLG issued Circular No. 17-35 advising that councils should assume a rate peg of 2.5% for and future years. Council's long term financial modelling is impacted by these decisions and the plans adopted in June 2018 require amendment in response.

Other amendments to the currently adopted Resourcing Strategy include a less conservative approach to revenue forecasts e.g. greater revenue from hoarding permits and construction zone fees.

As foreshowed above, it is recommended that the duration of the SRVs proposed under Scenarios 2 and 3 be reduced from 7 years to 5 years, based on:

- the proposal to increase the minimum rate and apply the SRV to the minimum rate;
- a reduced duration gives more certainty around medium term planning, and enables the next term of Council to consider its options in the next IPR planning cycle;
- a better than expected end of year result for 2017/18;
- community feedback received after the IPR plans were adopted in June 2018; and
- the above amendments to forecast revenue from fees and charges.

It is also a statutory requirement that the Long Term Financial Plan component of the Resourcing Strategy be reviewed annually in conjunction with preparation of the Operational Plan, therefore reference to 2017/18 actual data has been added and projections adjusted accordingly.

Attachment 2 shows all proposed amendments in italic font and existing text proposed for deletion is shown in strikethrough. The following table summarises the proposed amendments reflected in Attachment 2.

No.	Page Ref.	Section	Reason for Proposed Change
1	5	General Manager's Foreword	Rate peg assumptions amended per advice from OLG. Status updated to reflect 25 June 2018 resolution.
2	8	Executive Summary	Scenario Planning section - Scenarios 2 and 3 reduced from 7 to 5 years' duration and descriptions amended for improved readability;
3	9		Asset Management Strategy section - replacement value of assets updated per Note 9a of the Audited Financial Statements 2017/18.
4	14	Organisational Structure	Amendment required to reflect discontinuation of former senior staff position (Chief Operating Officer) following resignation of the incumbent.
5	17-21	Current Financial Position (Long Term Financial Plan component)	The various performance ratios and corresponding graphs have been updated to include 2017/18 actuals and 2018/19 projections.
6	23-24	Planning Assumptions (Long Term Financial Plan component)	Rates and Annual Charges section - updated to include the most recent comparative council data released by the OLG (2016/17); and the rate peg assumptions in future years have been amended per advice from OLG, as detailed within this report;
7	27		Expenditure Assumptions - minor percentage adjustment to Employee Leave Entitlements reflective of 2017/18 actual.
8	30		Capital expenditure graph updated.
9	31	Sensitivity Analysis (Long Term Financial Plan component)	Minor change regarding the Rates and Annual Charges as percentage of total revenue; Employee Costs as percentage of total expenditure.
10	32-38	Financial Scenarios - Modelling (Long Term Financial Plan component)	Assumptions updated per Scenario reflective of change in rate peg assumptions, reduced SRV duration for Scenarios 2 and 3 per recommendation outlined in this report, and ratios updated to reflect the Audited Financial Statements 2017/18. Note: The draft Audited Financial Statements 2017/18 were reported to the Council at its meeting of 24 September 2018 (Min. No. 343).
11	43	Overview (Asset Management Strategy component)	Asset Management Strategy and Framework Reflects the corresponding amendment in the Executive Summary - replacement value of assets updated per Note 9a of the Audited Financial Statements 2017/18.
12	48	Current Asset Analysis (Asset Management Strategy component)	Value of Current Assets section - table updated to include 2017/18 data.
13	51-54		Condition of Current Assets section - actual replacement costs tables updated per 2017/18 data for the following asset classes - roads, seawalls and marine structures, stormwater drainage, and footpaths
14	55		Condition of Other Infrastructure Assets section - minor amendment to reflect completion in 2018 of audits foreshowed in original - for Kerb and Gutter, Traffic Facilities and Marine Structures.
15	57	Planning Assumptions (Asset Management Strategy component)	Scenario descriptions amended per changes made prior in document.
16	61	Gaps and Future Needs (Asset Management Strategy component)	Priority Risk Areas table updated - estimate cost to repair retaining walls and marine structures in poor condition has been updated to reflect final condition audit reports (draft audit foreshadowed in original);

No.	Page Ref.	Section	Reason for Proposed Change
17	68	Improvement Plan (Asset Management Strategy component)	Minor amendment to reflect completion in 2018 of audits foreshowed in original - for Kerb and Gutter, Traffic Facilities and Marine Structures.
18	80	Current Workforce Analysis (Workforce Management Strategy component)	Employee costs percentage changed per same change made within the Planning Assumptions (Long Term Financial Plan component).
19	94-95	Appendix 2: 10 Year Financial Model - Scenario 1	The Income Statement and Balance Sheet has been updated per scenario
20	98-99	Appendix 3: 10 Year Financial Model - Scenario 2	
21	102-103	Appendix 4: 10 Year Financial Model - Scenario 1	

4. Proposed Amendments to Council's Delivery Program

Amendments to the Delivery Program are required to reflect the amendments to the Resourcing Strategy and inclusive of the projects scheduled for 2019/20 i.e. the draft Operational Plan 2019/20. Attachment 3 shows all proposed amendments in red italic font. Amendments are inclusive of the 'carry over' of uncompleted projects from 2017/18 with their associated available funding into 2018/19 (see related report also presented to the 29 October 2018 meeting). The following table summarises the key proposed amendments reflected in Attachment 3, not including the marked up amendments in the "Action Plan".

No.	Page Ref.	Section	Reason for Proposed Change
1	7-10	Community Engagement	New section added to better detail the consultation undertaken to inform the preparation of the (adopted) Community Strategic Plan, Resourcing Strategy and Delivery Program.
2	13	Organisational Structure	Amendment required to reflect discontinuation of former senior staff position (Chief Operating Officer) following resignation of the incumbent.
3	17-20	Proposed Special Variation and Minimum Rate Increase	This new section details the three Scenarios, the need for the proposed SRV and the increase to minimum rates. It also details how the funds raised by Scenarios 2 and 3 will be allocated. Note: It is written from the perspective that Council is continuing with Scenario 3 as the preferred scenario and has adopted a reduced SRV duration. Note: This section can be amended prior to the commencement of the public exhibition period as required.
4	21	Budgeted Income Statement	Table replaced/amended to include all scenarios; original was based on Scenario 3 of the Long Term Financial Plan as the preferred scenario.
5	22-23	Financial Estimates	Table replaced/amended to include all scenarios; original was based on Scenario 3 of the Long Term Financial Plan as the preferred scenario.
6	27-29	Financial Summary - Direction 1	Income/Expenditure summary table per Direction has been updated to include all three Scenarios; original was based on Scenario 3 of the Long Term Financial Plan as the preferred scenario. Note: the associated pie charts will be amended post exhibition.
7	52-54	Financial Summary - Direction 2	
8	76-78	Financial Summary - Direction 3	
9	98-100	Financial Summary - Direction 4	
10	122-124	Financial Summary - Direction 5	
11	161-162	Appendix 2: Capital Works Program 2018/19 - 2020/21	Two pages have been added to this Appendix to show the scheduling of the projects/additional asset

No.	Page Ref.	Section	Reason for Proposed Change
			renewal proposed per Scenarios 2 and 3. The totals are in addition to the planned capital expenditure under Scenario 1 (per the original). Note: The tables include expenditure outside the duration of the current Delivery Program (i.e. Years 3 to 5 of the SRV period) - as it is not possible to deliver all the projects upfront they have been phased across the 5 year SRV period.

4.1 Draft Revenue Policy 2019/20

Whilst the OLG Guidelines state that councils do not have to adopt their Operational Plan for the coming year i.e. 2019/20 before applying to IPART for a special variation; the draft 2019/20 Revenue Policy (Attachment 4) is an essential component of the Operational Plan (Appendix 1), and has been prepared inclusive of all three financial scenarios. Attachment 4 shows the proposed amounts in red italic font and the 2018/19 amounts in strikethrough for comparison - Pending the outcomes of the engagement regarding the proposed SRV, only the relevant scenario will be included in the post exhibition version (i.e. these changes will be made to Attachment 3 post exhibition).

Note: The proposed amounts are indicative only and the rate in the dollar is to be reviewed in June/July 2019.

5. Draft Community Engagement Strategy

Attachment 5 has been prepared in accordance with Council's *Community Engagement Protocol* with reference to IPART's *Fact Sheet: Community Awareness and Engagement*. The Community Engagement Strategy will be implemented should Council resolve intent to apply for a SRV and minimum rate increase. It details the range of methods to be used to inform the community of the need for and extent of a rate rise, and the opportunity by which the community can provide feedback to Council (and to IPART) as to their preferred scenario including desire for services and willingness to pay.

It is noted that the timing of the engagement/exhibition period is not ideal because it runs into the Christmas period and school holidays, however this is largely dictated by the application deadlines set by IPART and the release of the application Guidelines by OLG. The Guidelines include specific information on future years rate peg assumptions to be utilised in financial modelling. This in turn has resulted in the IPR documents needing to be updated accordingly prior to commencing engagement. Further detail has also been added to the IPR documents to demonstrate where additional funding will be allocated. Proposed renewal expenditure is supported by detailed Asset Management Plans.

The 2.5-month engagement program will enable the Council to widely consult and give ample time for the community, and in particular ratepayers (including non-residential and international ratepayers) to become aware of the need for and extent of the proposed rate rise.

The 'inform' methods of engagement will include a webpage via Council's website/yoursay page, media release, advertisements, social media, eNewsletters, community noticeboards, via Precinct Committees, fact sheets/FAQ and a direct letter and 4-page information sheet sent to all ratepayers. The majority of ratepayers will receive this via post whilst those registered to receive their rates notice by email (approximately 3,210 properties or 8.1%) will receive theirs via email, helping to reduce the printing/postage cost.

Council has identified 8,694 ratepaying properties (as at 21 October 2018) where the nominated address was a real estate agent, suggesting that these properties are most likely an investment property. As many local real estate agents manage multiple properties, it is recommended to make it easier for investors to take part in the engagement, to send one unique letter to each real estate agent with a list of property address they manage and ask them to forward it onto the ratepayer. This means real estate agents won't be receiving numerous letters in the post to action and postage costs associated with the Direct Letter mailout are reduced.

Information Sessions will be held, one per Ward, spread out over several weeks. It is proposed that each session run from 6pm to 8pm (based on duration of past public meetings) and include a presentation by senior staff followed by a Q&A session. These sessions are open to both residents and businesses. The proposed dates and locations of the Information Sessions are:

- Wednesday 7 November 2018 at the North Sydney Leagues Club, Cammeray
- Monday 12 November 2018 at Hutley Hall, North Sydney
- Thursday 22 November 2018 at Neutral Bay Club, Neutral Bay

Drop-in sessions are also proposed, providing residents and businesses additional options to speak directly with Council staff regarding the proposal. The proposed dates and locations of the drop-in sessions are:

- Sunday 11 November 2018, from 9am to 3pm, at Kirribilli Art Design & Fashion Markets[3]
- Saturday 17 November 2018 from 8am to 12 Noon, at the Ros Crichton Pavilion during the Northside Produce Markets
- Wednesday 14 November 2018 from 11am to 2pm in Brett Whiteley Place, North Sydney
- Wednesday 21 November 2018 from 10am to 2pm in Grosvenor Lane Carpark, Neutral Bay
- Sunday 25 November 2018, from 9am to 3pm, at the Coal Loader Artisans Market
- Saturday 1 December 2018 from 8am to 12 Noon, at the Ros Crichton Pavilion during the Northside Produce Markets
- Tuesday 4 December 2018 from 10am to 1pm, at the Crows Nest Centre
- Saturday 12 January 2019 from 8am to 12 Noon, Cammeray Village (between Miller St and car park)

The 'engage' methods of engagement include submissions and a random phone survey. Submissions may be sent in writing (letter or email) and or lodged via the online Feedback Form available from Council's website.

A random survey of a sample size relevant to the size of the North Sydney LGA will obtain representative feedback. Four quotes were obtained for provision of the survey. Should Council resolve intent to apply to IPART, staff will engage the preferred survey provider on 1 November 2018. Recruitment of participants would commence 19 November 2018, all recruits will be sent a pre-reading information pack. Surveying would commence on 26 November to early December 2018. The survey findings will be provided by 18 January 2019. The following table details the sample size and random sampling error.

3 conjointly with other engagements - Proposed NYE Ticketing across LGA and Proposed North Sydney CBD Smoke-Free

Sample	Recruitment sample size	Final survey sample size	Random sampling error
Resident	n=500	n=400	+/- 4.9%
Business	n=250	n=200	+/- 6.9%

It is proposed that the consultation period run from 1 November 2018 to 16 January 2019. In order to meet the IPART application deadline of 11 February 2018, a Council meeting is required in the last week of January 2019 to present the engagement outcomes and for the Council to determine whether it will procced with lodging an application.

5.1 Estimated Engagement Costs

The estimated cost of the engagement program (excluding staff time) is:

Component	Cost
Social media boosts	$300
Advertisements	$4,000
Direct letter - printing and distribution	$8,570
Venue hire - for Information Sessions	$700
Random Phone Survey - 600 sample size	$43,000
TOTAL	$56,570

Funding is available within the 2018/19 budget, including carry over of $45,000 allocated in 2017/18 for the periodic Customer Satisfaction Survey which has been deferred and the balance from the Community Engagement/Consultation budget.

6. Advocacy for Review of NSW Rating System

It should also be noted that separately Council is continuing to advocate for a review of the NSW rating system and has made submissions on the matter as opportunities arise.

Since 1979 NSW has had a system of rate-pegging designed to prevent excessive increases in rates, and to encourage councils to become more efficient. Rating in NSW is also based solely on land values. A significant issue has arisen in terms of the rating of apartments and other multi-unit dwellings particularly in the inner suburbs of Sydney - this has a particular impact in the North Sydney LGA. The Local Government Review Panel's *Future Direction of NSW Local Government: Twenty Essential Steps* (Discussion Paper No. 3) states on page 40 that:

"currently the unimproved value of the land occupied by a block of apartments is split between the owners of individual dwellings (strata titles), such that each is rated on only a small fraction of the total value. As a result, the owners of apartments worth millions of dollars are rated less than owners of nearby houses worth much less, and all or most owners of apartments may pay the same minimum council rate irrespective of the differing market values of their properties. Not only are such outcomes inequitable, but they also mean that the rating system is raising far less revenue than it reasonably could... Equity issues can be addressed to some extent by increasing minimum rates and by changing the way the value of the land is distributed amongst the owners of strata-titled properties. However, these are only partial solutions and do not enable a council to capture significantly increased revenues from apartments overall. The only way both objectives can be achieved is by changing the valuation base to Capital Improved Values (CIV)."

Discussion Paper No. 3 also states on page 43 that:

"the rate-pegging system is also very costly relative to the benefits it delivers. Millions of dollars are spent each year by councils and State agencies on preparing, reviewing and determining applications when the actual cost impact of the proposed rate increases on households is often no more than $1 per week".

Council's July 2013 submission to the Local Government Review Panel's Discussion Paper No. 3 stated that "Council believes that rate pegging should be abolished, leaving councils to determine the level of rates to be levied" and that "Council strongly supports the introduction of a capital improved value rating system as it better reflects our conditions".

An alternative would be to allow councils to differentially rate based on land use. This mechanism allows councils to more equitably distribute the rate burden relative to demand on council services and capacity to pay. In the very least capacity should be provided in the legislation to enable different rates in the dollar to be set for medium and high density strata titled properties. This would enable North Sydney Council to address the inherent distortion currently occurring where stand-alone (or low density) residences pay disproportionately higher rates than strata titled apartments of comparable or greater market value.

The implementation of an "efficient and equitable rating system" is a key component of the State Government's *Fit for the Future* reforms. In December 2015 IPART was requested by the then NSW Premier to undertake a review of the NSW rating system.

IPART's website advises that the purpose of the review was to develop recommendations to improve the equity and efficiency of the rating system in order to enhance NSW councils' ability to implement sustainable fiscal policies over the long term. In conducting the review IPART consulted stakeholders, analysed the current rating system and assessed its performance against the key taxation principles of efficiency, equity, simplicity, sustainability and competitive neutrality. IPART also compared the NSW rating system to best practice policies in other jurisdictions. IPART completed its review of the Local Government Rating System in 2016. The final report was delivered to the Minister for Local Government in December 2016. The Minister is yet to advise the outcome of this review.

Until such time as the State Government announces any changes to the current system, special rate variations are a suitable option by which NSW councils can seek to increase their revenue, combined with productivity improvements and cost containment strategies.

7. Recommendation

It is recommended that the Council:

a) resolve its 'intent' to apply for a combined SRV inclusive application and increase minimum rates above the statutory limit to general income, effective from 2019/20;
b) endorse the Amended Resourcing Strategy which is inclusive of a SRV duration under Scenarios 2 and 3 of 5 years (Attachment 2), the Amended Delivery Program (Attachment 3) and the Draft Revenue Policy 2019/20 (Attachment 4) for public exhibition from 1 November 2018 to 16 January 2019;
c) endorse the Community Engagement Strategy (Attachment 5) outlining how the community will be informed of the proposed SRV and minimum rate increase, including the need for

and extent of a rate rise, as well as how the community can have a say (on the three options, inclusive of Scenario 3 as the preferred option), providing feedback on the proposal. The consultation period will run 1 November 2018 and 16 January 2019; and

d) note that the engagement outcomes need to be reported to the first Council meeting of 2019, which will need to be held in late January 2019, so that the Council can determine whether to proceed with submitting an application by the deadline of 11 February 2019.

It is noted that the tentative proposed date the first Council meeting for 2019 is Tuesday 29 January 2019. The draft 2019 Meeting Schedule will be reported to the Council at its November 2018 meeting.

Attachment 1: Scenarios Comparison Tables - The following tables present the different options, projecting the annual rate amounts and the impacts for residential ratepayers of the various scenarios. This information will be included in the Information Sheet to help ratepayers understand how the different options will affect the rates that they will pay.

Residential ratepayers:

	Scenario 1 - rate peg only					Scenario 2 - 5.5% incl. of rate peg					Scenario 3 - 7% incl. of rate peg				
Land Values	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
$0 - $499,999	$611	$626	$642	$658	$675	$628	$663	$699	$737	$778	$637	$681	$728	$779	$834
$500,000 - $749,999	$686	$703	$721	$739	$758	$705	$744	$786	$829	$876	$715	$766	$821	$879	$941
$750,000 - $999,999	$952	$976	$1,000	$1,026	$1,051	$978	$1,032	$1,091	$1,152	$1,216	$992	$1,064	$1,141	$1,222	$1,310
$1,000,000 - $1,499,999	$1,300	$1,332	$1,365	$1,401	$1,435	$1,335	$1,409	$1,489	$1,573	$1,661	$1,355	$1,453	$1,557	$1,669	$1,788
$1,500,000 - $1,999,999	$1,799	$1,843	$1,890	$1,939	$1,987	$1,848	$1,951	$2,061	$2,177	$2,298	$1,875	$2,011	$2,155	$2,309	$2,475
$2,000,000 or greater	$3,227	$3,306	$3,390	$3,478	$3,563	$3,315	$3,498	$3,697	$3,904	$4,123	$3,363	$3,607	$3,866	$4,142	$4,440
Average annual rate (excludes DWMC and SWMC)	**$804**	**$824**	**$845**	**$866**	**$888**	**$826**	**$872**	**$920**	**$971**	**$1,025**	**$838**	**$897**	**$961**	**$1,028**	**$1,101**
Average annual increase	**$31**	**$20**	**$21**	**$21**	**$22**	**$54**	**$46**	**$48**	**$51**	**$54**	**$65**	**$59**	**$63**	**$68**	**$73**
Minimum rate paid by 76% of ratepayers (excludes existing levies)	$540	$554	$568	$582	$597	$555	$586	$618	$652	$688	$563	$602	$644	$689	$737
Minimum rate annual increase ($526.00 in 2018/19)	$14	$14	$14	$14	$15	$29	$31	$32	$34	$36	$37	$39	$42	$45	$48

Business ratepayers:

	Scenario 1 - rate peg only					Scenario 2 - 5.5% incl. of rate peg					Scenario 3 - 7% incl. of rate peg				
Land Values	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
$0 - $499,999	$1,021	$1,046	$1,071	$1,096	$1,123	$1,048	$1,103	$1,161	$1,222	$1,287	$1,062	$1,133	$1,209	$1,290	$1,377
$500,000 - $749,999	$3,438	$3,521	$3,605	$3,692	$3,781	$3,528	$3,715	$3,912	$4,119	$4,339	$3,576	$3,817	$4,075	$4,351	$4,646
$750,000 - $999,999	$4,727	$4,840	$4,956	$5,076	$5,198	$4,850	$5,107	$5,378	$5,664	$5,965	$4,917	$5,248	$5,603	$5,982	$6,389
$1,000,000 - $1,499,999	$6,486	$6,645	$6,808	$6,974	$7,145	$6,659	$7,018	$7,397	$7,796	$8,217	$6,752	$7,215	$7,711	$8,242	$8,809
$1,500,000 - $1,999,999	$9,357	$9,583	$9,815	$10,054	$10,298	$9,604	$10,116	$10,657	$11,227	$11,828	$9,736	$10,398	$11,106	$11,863	$12,673
$2,000,000 or greater	$37,203	$38,127	$39,075	$40,048	$41,043	$38,212	$40,302	$42,508	$44,835	$47,290	$38,752	$41,452	$44,341	$47,432	$50,739
Average annual rate (excludes DWMC and SWMC)	**$4,826**	**$4,945**	**$5,067**	**$5,191**	**$5,319**	**$4,956**	**$5,224**	**$5,507**	**$5,805**	**$6,120**	**$5,025**	**$5,371**	**$5,741**	**$6,138**	**$6,562**
Average annual increase	**$28**	**$119**	**$122**	**$124**	**$128**	**$157**	**$268**	**$283**	**$298**	**$315**	**$227**	**$346**	**$370**	**$397**	**$424**
Minimum rate paid by 33% of ratepayers (excludes existing levies)	$540	$554	$568	$582	$597	$555	$586	$618	$652	$688	$563	$602	$644	$689	$737
Minimum rate annual increase ($526.00 in 2018/19)	$14	$14	$14	$14	$15	$29	$31	$32	$34	$36	$37	$39	$42	$45	$48