CLAUSE 2A – SPECIAL RATE VARIATION 2013/14
FILE: R2-13 **ATTACHMENT: NO**
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Background

The amount of rates that Council collects can only be increased annually by the rate pegging amount (the maximum increase), which is determined by IPART (Independent Pricing and Regulatory Tribunal) and is based on inflation. This amount is generally around 3%. Council determines how this 3% is distributed between the rating categories (Cobar has four categories – residential, business, farmland and mining, which are further divided up into subcategories). Council's ability to raise income through rates is therefore limited by rate pegging.

Earlier this year, Council resolved to go forward with the preparation of a Special Rate Variation (SRV) application for 2013/14, seeking 7% per annum over 7 years, plus the 3% rate peg. Since then, Council invited IPART to come to Cobar to provide some background and advice to Council on the process and our requirements for a SRV. IPART visited in June. The need for a SRV was discussed at the August Council workshop and again at the training day for new Councillors on 27 September 2012.

The purpose of this paper is to set the direction for the SRV process and to alert Council of the timetable requirements.

Following the discussions with IPART and further analysis of the budget, it was thought that Council should re-consider its original resolution. In a separate paper to this, Council will be asked to note the Community Engagement Strategy that will be rolled out over coming months in a bid to ensure the residents of the Shire are aware of the application and are able to provide input and have their say on the direction Council takes.

Council is now asked to consider what options to take to the public – the value of any SRV, the distribution across rating categories and what the additional funds are likely to be used for. This information will be used during the public consultation phase. All input will be collated and further work on the long term financial plan will be undertaken in coming months. Using this information, Council will be asked in November to make a final decision on what the SRV application will look like, so the application can be submitted in early 2013.

What is Council doing to improve financial sustainability?

Council in its current form is not financially sustainable. In recent years, Council has managed to generate an operating surplus every year bar the last two, however this has been at the expense of assets. Inadequate funds were available for appropriate asset maintenance and replacement. In 2010/11, Council experienced a $1.5m operating deficit. Due to tough financial management, this deficit was reduced to around $0.7m in 2011/12 (unaudited result). This figure excludes the early FAGs payment.

Council has critically analysed all income streams and has increased fees and charges where appropriate – such as the plant hire rates. It is believed that a SRV is the only other source of income available at this stage. Council is very dependent on grant funding, with grants accounting for nearly half of Council's income. However, with the Federal Government struggling to generate its promised surplus and the State Government struggling for funds, an increase in grant income cannot be factored in.

Operational costs continue to increase, particularly in the area of electricity and chemical costs and cost shifting from other levels of government continues to place pressure on our budget. Council is assessing where cost savings can be achieved and a number of hard decisions have been made recently, including removing community donations in 2012/13, a freeze on replacing staff and closing the Centrelink Office as it was costing Council money to operate.

Council is also selling surplus land assets where possible, is looking at offering the management of the Lilliane Brady Village to a provider, is improving internal financial reporting systems and processes, has reduced bad debts and analysed project costings to ensure all costs are fully recovered. An Employee Leave Entitlement (ELE) fund has been created and Council's ELE liability has been reduced. Council is also redeveloping the S94, S94A, S64 plans and voluntary planning agreements.

Why do we need a SRV?

If Council continues without a special rate rise, the condition of our assets will continue to fall and/or our service provision will have to decrease.

The Auditors have told Council to increase cash reserves to cover our restrictions. This has been achieved over the past 12 months and Council currently has around $2.9m cash. However, Council took out a $1m loan to achieve this result. In two of the last three years Council has borrowed from the water and sewer funds. These funds have now been replaced and proper reserves established. Council's expenditure must be kept to budget. A significant reduction in the deficit was achieved over the last 12 months. The Auditors are also concerned that we are not investing adequately in our assets.

The State Government is encouraging Council to prepare a SRV application. The Division of Local Government has advised Council to consider a SRV to assist with financial sustainability. NSW Treasury is currently undertaking a study into the financial sustainability of Councils.

Council's integrated planning and reporting documentation notes that an increase in income through a SRV is required. The long term financial plan shows that the additional income is required to cover both operational costs and contribute to asset management costs. An example of how operational costs have increased can be seen by studying the costs of running the Cobar Memorial Swimming Pool. In 2012/13 the pool will cost $468,254 to operate (including depreciation). This is up from $170,785

in 2006/07. The net cost of operating the pool is $375,000 (see the table later in this paper).

SRV Criteria

Under the Local Government Act 1993, Council can apply for a one off rate increase – known as a 508(2) application, or a series of annual increases up to seven years – known as a 508(A). The criteria for each is slightly different. The criteria are set out in the guidelines. The 2012 guidelines have not yet been released but are likely to be similar to those of 2011, although the emphasis on each may change slightly. The criteria for 2011 are set out below.

508A – Multi Year	**508 (2) – Single Year**
• Demonstrated need for rate rise • *Demonstrated* community support • Reasonable impact on rate payers • Sustainable financing strategy (borrowing) • *Implementation of IP&R* • Any other relevant factors	• Demonstrated need for rate rise • *Adequate* community support • Reasonable impact on rate payers • Sustainable financing strategy (borrowing) • *Implementation of IP&R not relevant* • Any other relevant factors

Issues

There are essentially three key issues to consider in a SRV.

The Quantum of the SRV

Of Council's $24m budget, around 10% of income is collected from general rates. Any SRV only applies to the ***general*** rate, not to water, sewer or garbage rates. Cobar Council's rates are currently well below those of equivalent Councils (our group average), with residential rates 20% lower, farmland rates 66% lower and business rates 46% lower. It is not possible to compare mining rates, however the ad valorem rate for both mining categories are well below other similar towns in NSW. In November Council will need to determine if Cobar applies for a one off increase in rates, or a multi year increase.

The Burden of the SRV

Council must decide how to spread any rate rise across rating categories. As discussed earlier, all categories are well below the group average. It is possible to put more burden on one category than the others. During discussions on the previous council resolution, Council resolved to place the majority of the burden on the mining and business categories.

When distributing the 3.6% rate peg for 2012/13, more of the burden went towards the mining category (20%) despite the rate in the dollar decreasing for mining (2.3 to

1.76). This was due to some mining valuations increasing more than other valuations and some new mining valuations coming on line. This can be a feature of the rate pegging system. As a result, residential rates actually fell. Farmland rates have been falling for many years.

Distribution of Funds to Council Activities

Any rate rise will increase Council's income and Council must decide how these funds will be spent. These funds will improve the sustainability of Council with some going towards operational costs and some being used for asset management. The rate rise itself will not solve Council's asset management deficit.

Options

Options - The Quantum of the SRV

Six options have been prepared to give Councillors an indication of what each scenario means in regards to additional income for Council. The six options are as follows:

1. 10% annual increase for 7 years, then pegged
2. 25% increase next year
3. 13% increase for 4 years, then pegged
4. 13% increase for 5 years, then pegged
5. 13% increase for 6 years, then pegged
6. 13% increase for 7 years, then pegged

It is assumed that the rate peg is 3% and this amount has been factored into the rate rises above.

	No SRV	@10% for 7	25% one off	@13% for 4	@13% for 5	@13% for 6	@13% for 7
12-13 base level	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000
13-14	2,739,800	2,926,000	3,325,000	3,005,800	3,005,800	3,005,800	3,005,800
14-15	2,821,994	3,218,600	3,424,750	3,396,554	3,396,554	3,396,554	3,396,554
15-16	2,906,654	3,540,460	3,527,493	3,838,106	3,838,106	3,838,106	3,838,106
16-17	2,993,853	3,894,506	3,633,317	4,337,060	4,337,060	4,337,060	4,337,060
17-18	3,083,669	4,283,957	3,742,317	4,467,172	4,900,878	4,900,878	4,900,878
18-19	3,176,179	4,712,352	3,854,586	4,601,187	5,047,904	5,537,992	5,537,992
19-20	3,271,464	5,183,587	3,970,224	4,739,222	5,199,341	5,704,131	6,257,931
	23,653,614	**30,419,462**	**28,137,687**	**31,045,101**	**32,385,642**	**33,380,520**	**33,934,320**

Extra annual funding available compared to previous year

	No SRV	@10% for 7	25% one off	@13% for 4	@13% for 5	@13% for 6	@13% for 7
12-13 base level	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000
13-14	79,800	**266,000**	**665,000**	**345,800**	345,800	345,800	345,800
14-15	82,194	558,600	764,750	**736,554**	736,554	736,554	736,554
15-16	84,660	880,460	867,493	**1,178,106**	1,178,106	1,178,106	1,178,106
16-17	87,200	1,234,506	973,317	**1,677,060**	1,677,060	1,677,060	1,677,060
17-18	89,816	1,623,957	1,082,317	**1,807,172**	2,240,878	2,240,878	2,240,878
18-19	92,510	2,052,352	1,194,586	**1,941,187**	2,387,904	2,877,992	2,877,992
19-20	95,285	2,523,587	1,310,224	**2,079,222**	2,539,341	3,044,131	3,597,931

Cumulative Increases

	No SRV	@10% for 7	25% one off	@13% for 4	@13% for 5	@13% for 6	@13% for 7
12-13 base level	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000	2,660,000
13-14	103	**110**	**125**	**113**	**113**	**113**	**113**
14-15	106	121	129	128	128	128	128
15-16	109	133	133	144	144	144	144
16-17	113	146	137	163	163	163	163
17-18	116	161	141	168	184	184	184
18-19	119	177	145	173	190	208	208
19-20	123	195	149	178	195	214	235

It is recommended that Council choose three options to take to the community.

1. No special rate variation – the implications will need to be made very clear on what this means and the community will need to decide what services will be removed or severely reduced in order to have a balanced budget.

2. A large one-off increase – 25% gives Council an injection of $666,000 next year and will assist with meeting increased operational costs. This large increase includes the estimated 3% rate peg amount.

3. A multi-year increase – 13% per annum for 7 years will allow Council to cover increased operational costs and to meet some of the infrastructure deficit. This increase is essentially 10% above the rate peg each year.

Implications

	Rate Peg Only	**25% one –off**	**13% for 7 years**
Additional Funding available	Between $80,000 and $90,000 pa	$650,000 in year 1 $1.29m by yr 7	$346,000 in year 1 $3.6m in yr 7

Average rates assuming even burden yr 1	Residential - $430 Farmland - $1249 Business - $803 Mining - $215,170	Residential $529 Farmland - $1515 Business - $961 Mining -$260,640	Residential - $471 Farmland - $1367 Business - $881 Mining - $238,192
Average rates, assuming even burden yr 7	Residential - $514 Farmland - $1491 Business - $959 Mining - $259,925	Residential - $631 Farmland - $1809 Business - $1147 Mining $311,218	Residential - $980 Farmland - $2846 Business - $1835 Mining - $495,903
Group average, assuming group increases by rate peg – yr 1	Residential - $533 Farmland - $2233 Business - $1110		
Group average, assuming group increases by rate peg – yr 7	Residential - $637 Farmland - $2666 Business - $1326		

Options - The Burden of the SRV

Council must decide how to distribute the burden of any rate rise across the categories – just as they do each year with the rate peg. With all rating categories being well below the group averages, it was thought that an even distribution across the four categories may be appropriate. However, Council may like to increase the burden on one sector more than the others.

Options - Distribution of Funds to Council Activities

This will obviously depend on the quantum of any rate rise. However, it is believed that putting $300,000 towards the operations of the Cobar Memorial Swimming Pool is a wise investment. The pool currently costs Council $468,000 a year to operate (including depreciation). Once income is accounted for, the net cost of operating the pool is $375,000.

	Swimming Pool	Actual							Budget
		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Expenses								
10943	Electricity	included in General Maintenance			$ 18,871	$ 64,178	$ 49,965	$ 56,595	$ 63,250
10944	Payment 50% extra income						$ 5,956	$ 5,783	$ 7,400
10945	Contract	$ 96,493	$ 98,435	$ 60,013	$ 55,000	$ 56,726	$ 145,800	$ 163,711	$ 170,000
10946	General Maintenance	$ 44,976	$ 31,335	$ 71,864	$ 79,559	$ 61,512	$ 36,899	$ 31,256	$ 44,600
10947	Water Cost	$ 18,364	$ 11,850	$ 12,749	$ 54,341	$ 23,821	$ 26,057	$ 49,444	$ 8,500
10948	Water Slide	$ 2,733	$ 1,628	$ 4,443	$ 1,359	$ 1,956	$ 15,160	$ 7,256	$ 4,200
10949	Chemicals	$ 9,264	$ 7,404	$ 9,266	$ 27,148	$ 34,847	$ 20,790	$ 31,926	$ 31,000
10950	Telephone	$ 1,362	$ 870	$ 1,684	$ 409	$ 503	$ 529	$ 482	$ 520
10951	Grounds				$ 898	$ 1,368	$ 4,197	$ 3,869	$ 4,100
10952	Equipment Maint	$ 6,858		$ 1,380	$ 723	$ 11,085	$ 11,034	$ 8,482	$ 6,200
10953	Insurance		$ 6,565	$ 7,222	$ 11,408	$ 12,751	$ 12,495	$ 11,963	$ 12,400
	Rates	$ 9,127	$ 6,701	$ 6,833	$ 6,933	$ 7,214	$ 7,421	$ 7,678	$ 5,400
10954	Extra Lifesavers			$ 924	$ 14,400	$ 27,384			
99921	Depreciation	$ 5,997	$ 5,997	$ 31,151	$ 45,688	$ 101,051	$ 103,390	$ 131,230	$ 110,684
	Total Expense	**$ 195,174**	**$ 170,785**	**$ 207,529**	**$ 316,737**	**$ 404,396**	**$ 439,693**	**$ 509,675**	**$ 468,254**
	Income								
91671	Admissions	$ 7,032	$ 6,067				$ 25,444	$ 21,643	$ 29,000
91672	Season Tickets						$ 36,748	$ 40,630	$ 51,800
91674	Water Slide Income	$ 317	$ 427					$ 9,869	$ 12,500
	Total Income	**$ 7,349**	**$ 6,494**	**$ -**	**$ -**	**$ -**	**$ 62,192**	**$ 72,142**	**$ 93,300**
	Net Cost	**$ 187,825**	**$ 164,291**	**$ 207,529**	**$ 316,737**	**$ 404,396**	**$ 377,501**	**$ 437,533**	**$ 374,954**
	Net Cost ex depreciation	**$ 181,828**	**$ 158,294**	**$ 176,378**	**$ 271,049**	**$ 303,345**	**$ 274,111**	**$ 306,303**	**$ 264,270**

Appendix 1

Whilst funds were set aside at the time of construction, the additional running costs were not accounted for, and in reality a SRV probably should have been undertaken when the pool was upgraded. However, the upgrade cannot account for all the increased costs, as per unit electricity prices have increased substantially, chemical costs have increased, and the pool is now operating under a compliant management structure. As such, the pool has significantly increased Council's operating costs. This could be offset by the SRV, which in effect will reduce Council's budget deficit by the subsequent amount.

The other asset that would benefit from an increased budget allocation is roads, with an annual asset management deficit of around $7m.

Impact

One-Off Increase of 25%

Appropriate $300,000 to the pool in the budget. This is currently a major contributor to the operating deficit of Council. As a result, the budget deficit will fall by $300,000 and the asset becomes sustainable.

$366,000 could be appropriated to roads infrastructure, allowing Council to increase investment in these assets. These funds will therefore not impact on the operating deficit but the extra funds are available to be allocated to roads. This could be used for resealing works or gravel resheeting.

Multi-Year Option

In year one, all funds could be allocated to the operational costs of the pool, as per the argument above. Funds above $300,000 from year one onwards could be once again allocated to roads and infrastructure. This would assist in improving the road network to a reasonable standard. During the community consultation, ratepayer feedback will be sought on their priorities for increased funding.

RECOMMENDATION

That Council:

1. **seeks community input into the proposed Special Rate Variation with three options:**
   - **No special rate rise;**
   - **A one off rise of 25%;**
   - **A multi year increase 13% per annum for seven years.**
2. **Spreads the burden of any rate rise evenly between the four rating categories.**
3. **That Council determines to appropriate any funds raised through a Special Rate Variation as follows:**
   - **$300,000 in the operation of the Cobar Memorial Swimming Pool, thus reducing the operating deficit by the same amount;**
   - **Additional funds on roads and other assets.**

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FILE: R2-13

AUTHOR: ***Special Projects Officer, Angela Shepherd***
Director Corporate and Community Services, Kym Miller
Rates Officer, Jo-Louise Brown

MOTION: That Council take no action in implementing the special rate variation and only increase by the rate pegging amount.
Clr Yench/ **LAPSED**

The motion LAPSED for the want of a SECONDER.

257.10.2012 **RESOLVED:**
That Council:
1. Seeks community input into the proposed Special Rate Variation with two options:
   - A one off rise of 25%;
   - A multi year increase of 13% per annum including rate peg for seven years.

2. Distributes any rate rise so that the existing rate differentials are maintained (status quo).

3. That Council determines to appropriate any funds raised through a Special Rate Variation as follows:
   - $300,000 in the operation of the Cobar Memorial Swimming Pool, thus reducing the operating deficit by the same amount;
   - Additional funds on roads and other assets.
     Clr Maxwell/Clr Kings **CARRIED**
