Strathfield Council
The Special Rate Variation
Background Paper

Part A Overview

The Strathfield Council ('Council') financial position is unsustainable at the current levels of expenditure and income. This has occurred for a number of reasons discussed in this background paper.

Previous Councils' have made decisions on assets, services and rating options in the best interests of their communities. However, the time when combined with other external influences and legislative restrictions has gradually led to declining financial sustainability. This is a problem which Council must now address this year.

Council's 2022-2032 Long Term Financial Plan (LTFP) forecasts consolidated operating deficits to 2033. The average operating deficit for the 10 year forecast period is estimated at $12.4 million per annum. Ongoing core costs and externally imposed obligations on local governments are outpacing revenue growth and placing council budgets under increasing pressure. Unless current levels of income are increased, Council will be unable to resource renewal of assets and maintain current services. Strathfield Council is not alone; 74 NSW councils reported operating deficits in their General Fund in 2020/2021.

Why does Council need to be sustainable?

The Local Government Act requires councils to apply sound financial management principles and to develop Long Term Financial Plans that maintain financial sustainability into the future. The financial sustainability objectives that support service delivery are:

- Responsible and sustainable spending
- Adequate cash reserves and use of borrowings
- Responsible and sustainable infrastructure investment
- To explore options to improve financial sustainability to achieve a fully funded operating position.

These objectives are the foundation for sound financial management and are not negotiable. If a council fails to meet these principles, then the government may intervene in council operations. We only have to look at the recent government interventions of the Central Coast Council as an example, where there was a shortfall in cash for General Fund operations.

A financially sustainable council has the financial capacity to maintain assets and deliver services to its community over the long term.

Why has Council become unsustainable now?

All councils face financial sustainability challenges on a cyclic basis; this is caused by the constraints and influences on local government. Cost increases have exceeded rate increases and typically reduce spending on key services like asset maintenance and renewals to keep service going and meet new costs.

There are a number of contributors to this growing financial sustainability gap, some of which are outside of Council's control and others which Council has some influence over.

Rate capping is a contributor. The Independent Pricing and Regulatory Tribunal (IPART) has set the rate peg for NSW councils by taking the increase in the Local Government Cost Index (LGCI) and applying productivity gains or allowances for one-off events. This LGCI is like the Consumer Price Index but calculated based on the change in cost of the type of goods councils buy, like bitumen and fuel, rather than fruit and vegetables. The LGCI does not recognise some cost increases councils experience nor that some councils will experience cost increases higher than the average due to location or other events. Over time small shortfalls accumulate, and councils generally respond by spending less on asset renewals and maintenance and services until they reach a point approaching failure.

Cost Shifting. Cost shifting comes in two main forms, the transfer of responsibilities and increased compliance costs and responsibilities imposed on local government by State Government.

Over the last decade, the NSW State Government, and to a lesser extent, the Australian Government have transferred costs to local government without sufficient recompense. Major types of cost shifting include the withdrawal of financial support once a program is established, the transfer of assets without appropriate funding support, the requirement to provide concessions and rebates without compensation payments, increased regulatory and compliance arrangements and failure to provide for indexation of fees and charges for services prescribed under state legislation or regulation. Key impacts on Strathfield have included:

- ARIC - internal audit program using external/internal resources
- Emergency Service Levy increases.
- Cyber security/modernise systems/fraud prevention
- Crown Land, Plans of Management, Compliance reporting.

New assets are important for any community, especially when provided through Federal and State Government grant programs and developer contributions. Grants are often discretionary as Council is generally not compelled to apply for or accept grant funding even though it means valuable community infrastructure is funded by government. All new infrastructure generally carries hidden costs. The rate cap does not allow for the new costs associated with the operation, maintenance, renewal and depreciation of new assets, and Council has to fund these additional costs through its existing budget. Over time these costs eat into Council’s sustainability as it funds more and more new asset costs from its existing budget.

Service level improvements or high service levels also contribute to the decline of financial sustainability. Over time service levels have increased, and while some service level changes have delivered net benefit, the great majority have imposed additional costs.

In the five years to 2020/21, the average operating performance ratio of NSW councils has steadily declined from 9.8% in 2016/17, to -1.5% in 2020/21. On top of this steady decline, the economic climate has changed post COVID-19. The high level of inflation is impacting the cost of materials and contracts that Council purchases to deliver services. This means that Council can no longer keep expenditure contained within the levels forecast in the LTFP without significant impact on service delivery to the community.

The cost to maintain, repair, replace or improve community assets and infrastructure has dramatically risen, increasing Council’s infrastructure backlog. Infrastructure backlog is the term given by council to the total amount or value of renewal works that need to be undertaken to bring council’s asset up to an acceptable standard. Council’s backlog has increased from $0.6 million in 2019 to $16 million in 2022, which is a backlog ratio of 4.2%, above the industry target of 2%. Assets will continue to deteriorate, and the backlog will increase further without additional funding.

Looking forward, the financial sustainability challenge will only increase

The tight labour market means that Council must plan for an increase in wages, particularly to attract staff in town planning, development assessment, compliance and engineering.

A high inflation environment, low rate increases, and increased costs for materials and logistics will continue to impact financial sustainability.

Council's Community Strategic Plan and Delivery Program identify several actions to deliver community aspirations that will enhance the liveability of the Strathfield LGA.

Population growth also has a significant influence on asset provision and long-term financial sustainability. Profile ID forecast average population increase of 1% annually, with the population expected to increase from 45,930 in 20/21 to 48,649 in 2026/27. Council does not have the revenue to service this population growth and the associated demands on Council assets and services.

By way of example, some initiatives are funded by state and federal government grants; however, these grants do not include the ongoing renewal, operation and maintenance costs that will need to be met by Council and are included in the long-term financial plan.

Westinvest Funded Projects - total estimated value is $21,815,000:

- Hudson Park East Project – new stage 3 construction, new pump track, new junior mountain bike track, new car park extension, Arthur Street Traffic improvements
- Airey Park – new pathway around the oval with landscaping
- Begnell Field – new passive recreation
- Strathfield Park – new storage.

What has Council done to address financial sustainability challenges?

In 2022 Council undertook a complete review of Council’s long term financial sustainability and conducted an organisation wide service review. This identified a range of productivity improvements, resource needs, cost savings and income increases to substantially improve Council’s long term financial sustainability.

The organisational service review and improvement plan identified over 36 operational improvements to reduce expenses and improve efficiency, including the proposal to cease the operation of the Strathfield Connector Bus service, improve income from the driving range and property leases, use new low-cost LED lighting and the introduction of a new monitoring system to control water and energy to generate savings.

These improvements are incorporated in the Council's new Long Term Financial Plan to reduce the size of the funding shortfall, with the initial net benefit of some $1.3m in 2023/24 increasing to an estimated $2.5 m over the 10 year forecast period.

Council wants to improve the equity of the current rating structure. In part, this has involved a review of the domestic waste management (DWM) charges that are currently $795 per household. The annual domestic waste charge is included with the annual rates bill. Council intends to restructure the waste charge and transfer $4 million of the waste income into general revenue. This will not reduce waste services provided to the community. To transfer these funds, Council will need to vary rates by 20.3%; however, this will be offset for the majority of ratepayers by a reduction of $245 from the waste charge. The proposed waste charge for 2023-2024, if approved, will be $550.

Secondly, Council has reviewed its rating structure and is proposing to include business subcategories for industrial areas and Strathfield CBD. The purpose of the revised structure is to ensure over the longer term that, all rate categories pay a fair and equitable share of rates.

Further Council has undertaken a review of its asset management strategy through the updating of its asset data for buildings, roads, bridges, footpaths and kerb and gutter. This review and analysis demonstrated that the asset condition has worsened, and since 2019, the backlog ratio has increased from 0.25% to 4.2%. To address the increasing backlog issue Council needs to spend more on renewing its assets. Council is planning to spend around $11.8 million per year to reduce the backlog to 3.1% and improve the safety and condition of the communities assets.

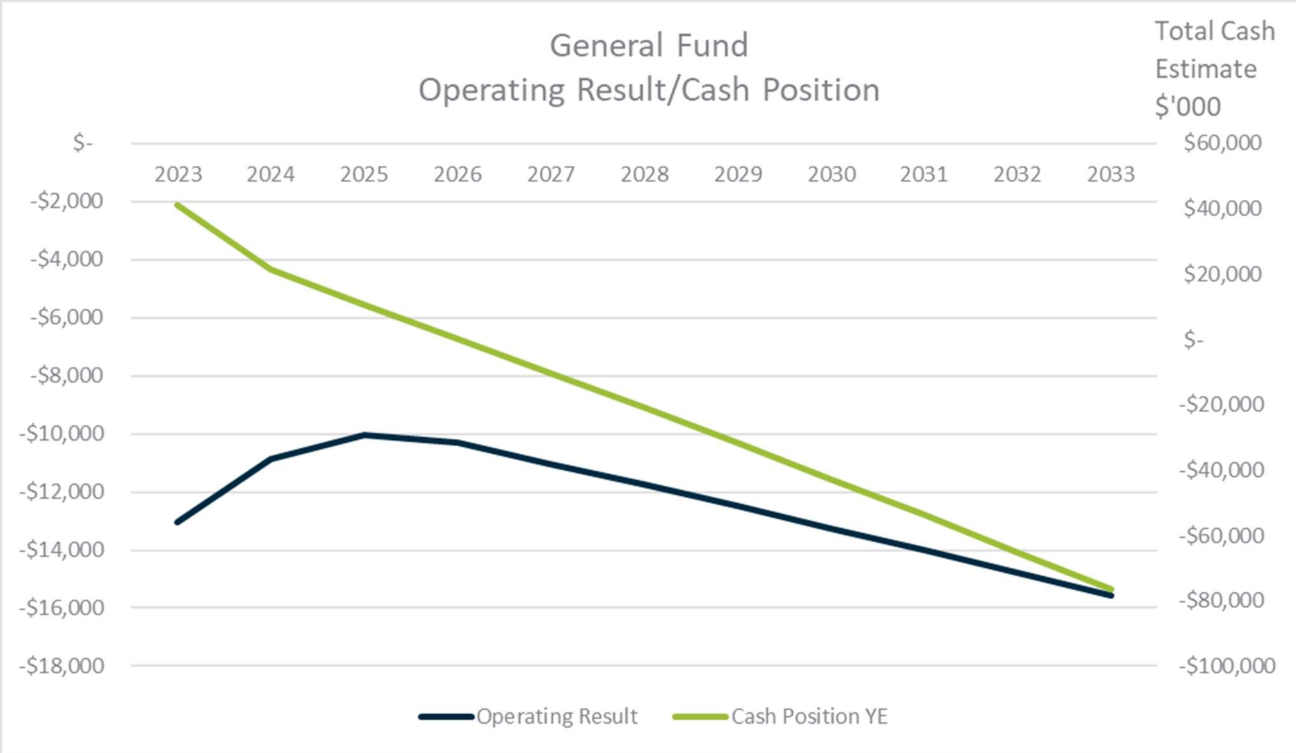
While these changes will lead to an improvement in sustainability alone, they will not be sufficient for Council to be financially sustainable.

Council's Current Financial Situation

The base case or status quo outlines what would happen if Council did nothing apart from making the savings and transfer of DWM funds noted above. Doing nothing else would mean Council would have:

- An average operating deficit for 10 year forecast period is estimated at $12.4 million pa and shown in the graph on the following page
- Insufficient money to maintain current service levels and asset renewals
- Inadequate funding for infrastructure renewal
- Under funding for expected growth and expanded services.

The following graph illustrates the estimated operating deficit for 2032/33 is $15.6 million, with Council running out of cash in 2027.



It is clear that this situation is not sustainable, and Council would be negligent of its statutory obligations if it were to ignore this.

Part B Proposed Special Rate Variation

Council believes that a special rate variation (SRV) is the most viable solution to the Council's financial sustainability challenges. Strathfield Council has not applied for an SRV since 1994. In the last 30 years, the population of the Strathfield LGA has increased by at least 20,000 people. Over 67% of dwellings are now home units, yet Council's rating system reflects a time when most dwellings were houses.

What is a special rate variation?

With rate capping, almost all NSW councils will be faced with having to apply for a special rate variation at some point. Councils go through cycles of SRVs, largely for the reasons set out earlier in this paper.

There are two types of SRVs:

- a temporary SRV for a fixed amount over a fixed period of time
- a permanent SRV for a fixed amount over a fixed period that remains in the rate base.

When a temporary SRV expires, rates return to the original level at the conclusion of the approval period and are usually approved to fund specific one-off projects like infrastructure renewal or reducing the infrastructure backlog. Strathfield Council's financial challenges are more general, and a temporary SRV would not solve the problem.

Permanent SRVs can be for a single year or every year for an approved period.

Council must apply to IPART for approval to increase rates through an SRV. Before doing so, Council must demonstrate that it has engaged the community about the possibility of an SRV and consider its views. IPART will also seek community feedback.

More information on SRVs can be found on IPART's website:
https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations.

What options are Council considering?

Council has begun the process of preparing two Special Rate Variation (SRV) applications to the Independent Pricing and Regulatory Tribunal (IPART) for discussion with the community. Both applications are proposed to come into effect from 1 July 2023.

The first application seeks to increase Council's rates income with a special variation.

Council is proposing two options for an SRV, either a one-off increase or increases over four years for community consultation. The SRV will apply to all rate categories and will generate income to address funding gaps, renew assets and maintain services. The SRV would be supported by a loan program in order to raise funds to commence asset backlog work.

The second application seeks to replace Council's Base Rate structure with a Minimum Rates structure. The second application to IPART is for a minimum rate structure that will allow Council to transition to a more equitable rates structure over the medium term.

Special rate variation options

Having considered a number of options, Council's preferred option is the four-year option. Regardless of the option, the domestic waste transfer that represents a 20.3% SRV increase is included in the first year.

To achieve financial sustainability and to be able to deliver the current services and improvement to asset conditions, Council requires the proposed increases in accordance with the following table. The SRV increases are all in addition to the rate peg.

Table 1 Proposed SRV increases

	2023-24	2024-25	2025-26	2026-27	Cumulative
Forecast rate peg	3.7%	3.0%	2.5%	2.5%	12.2%
Domestic waste transfer	20.3%	n/a	n/a	n/a	20.3%
Option 1: Single year SRV (excluding domestic waste transfer and rate peg)	50.0%	n/a	n/a	n/a	50.0%
Option 1: Single year SRV (total including domestic waste transfer and rate peg)	74%	n/a	n/a	n/a	**74.0%** (88.3% if years 2-4 rate pegs are included)
Option 2: Multi-year SRV (excluding domestic waste transfer & rate peg)	10.0%	5.0%	15.0%	15.0%	52.7%
Option 2: Multi-year SRV (total including domestic waste transfer and rate peg)	34.0%	8.0%	17.5%	17.5%	**99.8%**

In the first year of the proposed SRV's, Council intends to allocate all the DWM transfers, 20.3% to the residential rate category, and for Council's preferred four year option, 10% to the business categories and subcategories. For years two to four, the proposed SRV will be distributed evenly across the rating categories.

Minimum Rate Special rate variation

Council's goal is to improve the equity of the rates structure, and it aims to achieve this by introducing the minimum rate structure for all rating categories. The minimum rate will be the same for all rating categories starting at $900 and increasing to $1,200 by 2026/2027 as shown in the table below. The rate peg increase will not be applied during this transition period.

Table 2 Proposed Minimum rates

Year	Minimum Rate
2023-2024	$900
2024-2025	$1000
2025-2026	$1100
2026-2027	$1200

What does this mean for ratepayers?

The impact on an individual's rates will be different depending on the unimproved land value of their property. From 1 July 2023, changes because of the general revaluation undertaken by the Valuer General will also come into effect.

The following table provides an indication of the annual and weekly increase likely to be experienced by the range of land value for each rating category for the Council's preferred four year option. The increases are in accordance with Table 1 above and are inclusive of the rate peg.

Table 3 Impact on ratepayers: 4 year option

RESIDENTIAL		Current 2022/23	Proposed 2023/24	Proposed 2024/25	Proposed 2025/26	Proposed 2026/27	Total/ Ave Increases
Average rates	Annual Rates	845	1,119	1,218	1,443	1,708	863
	Annual increase		273	99	225	266	216
	Weekly increase		5.24	1.90	4.31	5.10	4.14
	Add DWM current charge	795	550	550	550	550	(245)
	Annual Rates (with DWM)	1,640	1,669	1,768	1,993	2,258	618
	Annual increase (with DWM)		28	99	225	266	155
	Weekly increase (With DWM)		0.54	1.90	4.31	5.10	2.97
Minimum rates (70% of ratepayers)	Minimum rates	584[1]	900	1000	1100	1200	616
	Annual increase		316	100	100	100	154
	Weekly increase		6.08	1.92	1.92	1.92	2.96
	Add DWM current charge	795	550	550	550	550	-245
	Minimum Rates (with DWM)	1379	1450	1550	1650	1750	371

[1] The is the average of those rates assessments on the minimum charge under the current rating structure.

RESIDENTIAL		Current 2022/23	Proposed 2023/24	Proposed 2024/25	Proposed 2025/26	Proposed 2026/27	Total/ Ave Increases
	Annual increase (with DWM)		71	100	100	100	93
	Weekly increase (With DWM)		1.36	1.92	1.92	1.92	1.78
BUSINESS (ALL)		**Current 2022/23**	**Proposed 2023/24**	**Proposed 2024/25**	**Proposed 2025/26**	**Proposed 2026/27**	**Total/Ave Increases**
Average rates	Annual Rates	4,116	5,683	6,138	7,212	8,474	4,358
Average rates	Annual increase		1,567	455	1,074	1,262	1,090
Average rates	Weekly increase		30.05	8.73	20.60	24.20	20.90
BUSINESS (INDUSTRIAL)		**Current 2022/23**	**Proposed 2023/24**	**Proposed 2024/25**	**Proposed 2025/26**	**Proposed 2026/27**	**Total/Ave Increases**
	Annual	3,910	6,327.08	6,833.25	8,029.07	9,434.16	5,524.44
	Annual increase		2,417.37	506.17	1,195.82	1,405.09	1,381.11
	Weekly increase		46.36	9.71	22.93	26.95	26.49

How do my rates compare to other councils?

The below table reflects the rates paid by residents of similar Councils in 2022/23 and estimated to 2026/27. When you compare rates paid by other like-size councils, Strathfield Council residential rates are currently clearly lower. However, with the move to minimums and the SRV, it aligns more with similar-sized metropolitan Councils. For the current average, business rates in Strathfield are at mid-point compared to other Councils and remain in a similar position in 026/27.

Table 4 Average residential and business rates compared to other councils

Council	Residential Average 2022/23	Residential Average 2026/27	Business Average 2022/23	Business Average 2026/27
Strathfield	845	$1708	4116	7137
Burwood	1,465	1,649	6861	7721
Canada Bay	1000	1340	1932	2174
Canterbury-Bankstown	1255	1740	6434	8922
Cumberland	1041	1171	7776	8752
Hunters Hill	2374	2872	1351	1635
Lane Cove	1359	1529	5134	5778
Mosman	1,552	1,747	3354	3775
Woollahra	1,497	1,684	3830	4310
Inner West	1,246	1,403	6545	7365

How does this improve Council's financial sustainability?

A combination of the improvement savings, transfer of DWM income and proposed special rate variation will enable Council to deliver current services and improve assets to the community, while becoming financially sustainable over the longer term. It will also enable Council to address its ongoing core deficits in the General Fund and its cash position, ensuring Council is more resilient and responsive to shocks and unexpected events in the future.

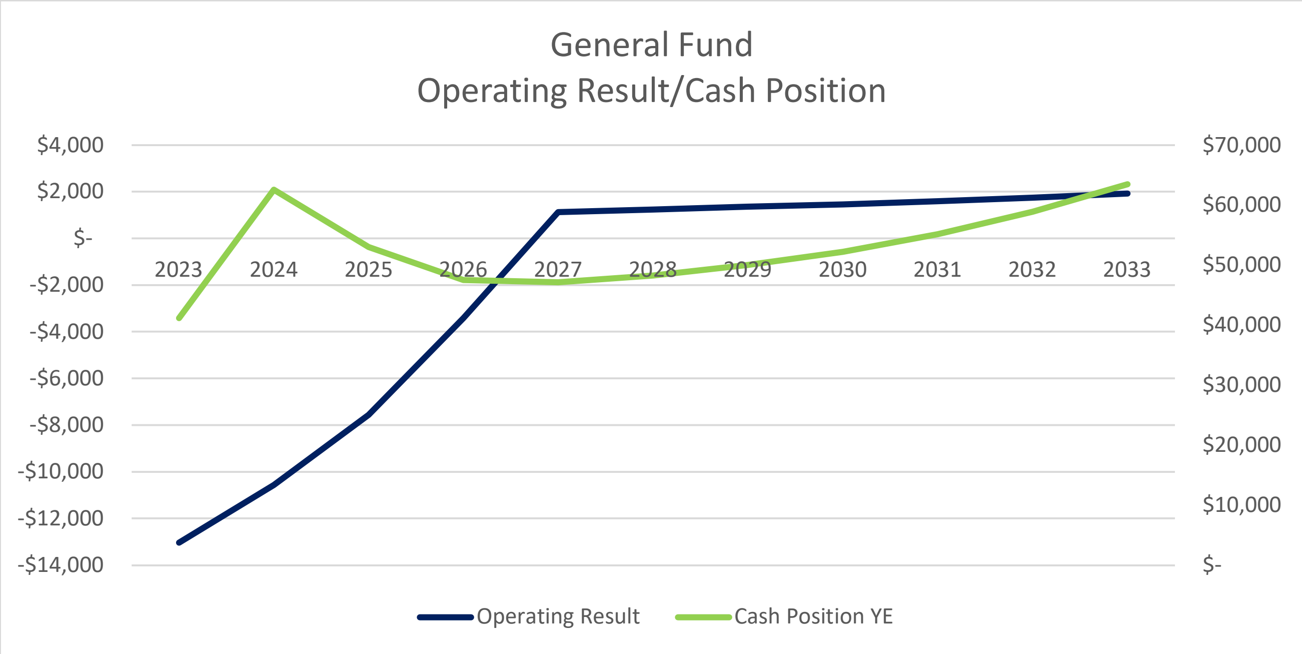
Council can deliver consolidated surpluses with the SRV and address the core deficits in the General Fund, which finances all services and infrastructure except for domestic waste operations. Without the rate increase, there will be a need to generate savings through service rationalisation to generate an operating surplus to fund an appropriate level of asset renewal expenditure.

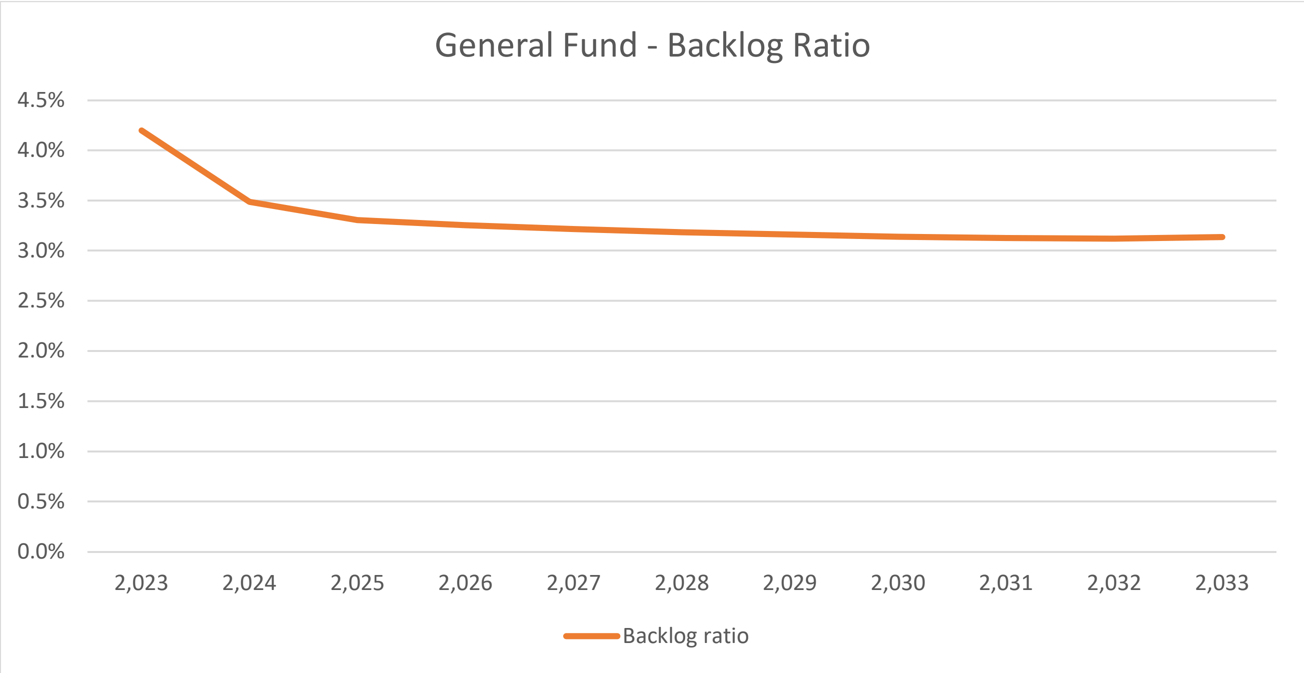
The special rate variation will ensure Council’s ongoing financial sustainability with surpluses in the General Fund.

The impact of implementing Council’s preferred SRV option will enable Council to meet the following objectives:

- Maintain and improve council assets
- Achieve sufficient cash reserves
- Achieve a fully funded operating position
- Secure continued service delivery.

This is illustrated in the following graphs:





Part C - How can I have my say?

The Council must apply to IPART for approval to increase rates through an SRV. Before doing so, Council must demonstrate that it has engaged the community about the possibility of an SRV and has considered its views. This does not mean a majority for or against the proposal will determine whether an application proceeds or not, as the obligation still remains on Council to be financially responsible and sustainable. Your views, however, are an important part of the process and Council values all feedback.

The first stage of the consultation process will occur over December 2022 and January 2023 to meet the IPART timeframe. We understand that this is a busy time for many; however, this will not be your only chance to have a say. Consultation will be ongoing until June 2023. We invite you to participate in the consultative process by attending meetings or pop-up stalls, completing a survey, sending a letter or email or simply calling us.

If after considering this feedback Council elects to proceed with an SRV application, IPART will also seek community feedback in the first half of 2023.

Where can I get more information?

We want to hear your views. Council's website at www.strathfield.nsw.gov.au/projects/srv contains more information and is being regularly updated.

Or Scan the QR code

More information on SRVs can be found on IPART's website:
https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations.

At Council information sessions between 6pm and 7pm at the Town Hall on:

- Mon 12 December 2022
- Wed 14 December 2022
- Thur 15 December 2022 (online)

Council is also running a number of pop-up stalls between 10am and 12pm where you can get more information. These stalls will be held on

- Sat 10 December 2022: Library
- Tues 13 December 2022: Strathfield Plaza (outside entry to Woolworths)
- Sat 17 December 2022: Homebush (cnr Rochester and Burlington)
- Sat 14 January 2023: Library

How do I make a submission?

Council will seek feedback from the community on the SRV and its updated Long Term Financial Plan from 9 December 2022 to 31 January 2023. The community is encouraged to provide feedback to Council in any of the following ways:

ELECTRONICALLY: Complete the survey on Council's online engagement portal at

www.strathfield.nsw.gov.au/projects/srv

BY EMAIL TO: council@strathfield.nsw.gov.au

BY LETTER: Address to the General Manager, 65 Homebush Road Strathfield NSW 2125

BY PHONE: Call Strathfield Council on 97489999

Submissions must be received by Council by 5pm on 31 January 2023.