

Professional Management and Leadership

Report No. PM6/2013

Strategy and Sustainability



SUBJECT: *SPECIAL RATE VARIATION*

AUTHOR: *Integrated Planning & Strategic Property Manager - Bronwyn Rumbel*

SUMMARY

The existing Section 508(2) special rate variation of 6.05% annual rate increase, granted in 2010-11 for a duration of two years, expires at the end of the current financial year. This will reduce annual rate revenue by approximately \$1.5 million from 2013-14 onwards.

This report proposes that Council utilise the transitional arrangements to apply for a single year extension to the special rate variation under Section 508(2) of the Local Government Act. This will allow Council to continue to fund specific projects until a Section 508A special rate variation can be submitted that is in alignment with the integrated planning and reporting framework.

RECOMMENDATION

1. That Council proceed with the preparation of an application to seek a one-year extension to the existing special rate variation under Section 508(2) of the Local Government Act to be submitted to IPART by 11 March 2013.
2. That Council endorse the community consultation strategy outlined in this report.
3. That Council receive a further report detailing the results of the community consultation on the proposed special rate variation.

BACKGROUND

Rates

Revenue from ordinary rates comprises around 44% of Council's annual revenues. The balance of Council's revenue comes from annual charges, user charges, fees, investment income, government grants and developer contributions.

The State Government has regulated rating levels for all councils in NSW, since the early 1980s, by setting a statutory limit on annual increases in council rates.

Rate pegging means that local councils have been restricted in their ability to raise sufficient income to meet the demands of their communities. In some instances, the percentage increase allowed by the rate peg has been less than the salaries and wages increases in the Local Government Award (for example, in 2004-05 the rate peg was 3.5% while the Award increase was 4.0%).

At the same time, State and Federal Governments have been passing responsibility for service delivery for a number of functions to local councils without the necessary funding required to provide these services (such as on-site sewage management, companion animals, and food safety). As a result, councils have streamlined their work practices to

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continue to efficiently provide services to their community and made cuts to services that they have previously provided to accommodate these new responsibilities.

Cessnock City Council has had three special rate variations approved since 2001. The first increase of 2.31% was approved in 2001 for a five year period. All of the funds from that increase were targeted towards road infrastructure improvements.

The second increase was 6.05% per year for a five-year period commencing in 2006-07 and expires in 2010-11. The money raised from this special rate variation was spent in three major areas:

- Resealing an additional 67 roads across the Local Government Area;
- Major road rehabilitation across the Local Government Area; and
- Replacement or major refurbishment of recreation buildings.

The special rate increase of 6.05% that Council currently has in place was granted under Section 508(2) of the Local Government Act for a two year period commencing in 2011-12 and expiring this year. The money raised from the existing special rate has been spent on resealing, heavy patching and rehabilitation of regional roads, urban collector roads, and rural collector roads in the local government area.

Special Rate Variations

The Independent Pricing & Regulatory Tribunal (IPART) is responsible for:

- Setting the annual rate cap (or “rate peg”);
- The assessment and determination of councils’ applications for special rate variations; and
- The assessment and determination of councils’ applications to increase ordinary and/or special rate minimums above the statutory limit.

Independent Pricing & Regulatory Tribunal (IPART) announced in December 2012 that the general increase in rates for all NSW Councils was to be capped at 3.4% for the 2013-14 year.

The Division of Local Government (DLG) issued “Guidelines for the preparation of an application for a special variation to general income” in November 2012 that set out the assessment criteria for special rate variation applications.

There are two types of special rate variations that Council can apply for:

Section 508(2)

This is a one-off percentage increase (greater than the rate peg) that remains permanently in the rate base or a one-off percentage increase (greater than the rate peg) for a fixed period after which the rate base is adjusted back to the rate peg path.

Section 508A

Under a Section 508A variation, a Council is able to phase-in a potentially significant rate increase over 2-7 years (rather than have a substantial increase in rates in the one year) and this increase then remains permanently in the rate base.

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The assessment criteria for special rate variation applications are:

- Need for the proposed rate increase;
- Community awareness of the need for and extent of a rate rise;
- Reasonable impact on ratepayers;
- Realistic assumptions in the proposed Delivery Program and Long-Term Financial Plan; and
- An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special rate variation period.

REPORT

The existing Section 508(2) special rate variation of 6.05% annual rate increase, granted in 2010-11 for a duration of two years, expires at the end of the current financial year. This will reduce annual rate revenue by approximately \$1.5 million from 2013-14 onwards.

Further to the General Manager's Briefing of Councillors on the Special Rate Variation and the Councillor Briefing on the Integrated Planning & Reporting Program late last year, it is proposed that Council utilise the transitional arrangements to apply for a single year extension special rate variation under Section 508(2) of the Local Government Act.

Council officers participated in a teleconference with representatives of IPART in December 2012. This was followed up with a letter to IPART advising that Council would be seeking a one-year extension of its existing S.508(2) special variation to continue work on the resealing and rehabilitating of priority roads across the Local Government Area. .

It will be noted in Council's application, that Council intends to seek a further special rate variation for 2014-15 that, in addition to meeting the five criteria outlined below, will be in alignment with the new Community Strategic Plan and other integrated planning documents that are to be adopted in June 2013.

Outlined below is a summary of the information that will be incorporated into Council's application to support the one-year extension to the existing special rate variation.

1. *Need for the proposed rate increase:*

- *Justification of Road Network requirement*

Due to the geographic spread of the Local Government Area, Cessnock City Council has more kilometres (km) of roads per capita than other Hunter Councils. Council is responsible for maintaining approximately 1,000km of road pavement. Of this, around 100km are regional roads that provide connectivity with larger villages both within and outside the Local Government Area while the remaining 900km are local roads. Of the total road network, 330km is gravel road while the surface of the remaining 670 km is generally sprayed bitumen seal with smaller lengths of asphalt or concrete pavement.

As part of the development of Council's Asset Management System, Council has undertaken a comprehensive assessment of its road network.

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While the average condition of Council's overall road network is assessed as very good; further analysis has indicated that the subset of regional roads within the road network is in worse condition. These roads are the most utilised by the community and hence influence their opinion about Council's road network.

Utilisation of the special rate increase to provide greater focus on minimising the number of failed regional roads and extending the useful life of major roads through regular resealing programs will improve the condition of the regional road network.

In the last community survey undertaken in July 2012, the satisfaction rating for developing and maintaining the road network was by far the lowest rating at 1.62 out of 5. This contrasted with the importance factor for this service being rated the highest at 4.78 out of 5. These results indicate the need for Council to increase the existing level of service in maintaining the road network as it is the community's highest priority.

This conclusion was supported by other questions in the survey. Road maintenance was seen by the community as being the highest priority issue for both their town or village (57%) and the local government area as a whole (50%). Consultation during the development of the *Cessnock 2020* Community Strategic Plan also highlighted the condition of Cessnock's roads as a major issue for the future.

Council's road network is not only important to the local population but is also a significant asset to the economic sustainability of the region. Use of Council's road network has significantly increased over the last ten years with steady population growth (1.1%) and increases in tourist visitation to the local vineyards.

The additional income raised from the special rate increase will be committed to the renewal of priority areas of Council's road network.

- *Inability to fund from current revenue sources*

Council's operational budget is under stress due to, among other things, increasing prices for electricity and water; and the imposition of costs for emergency services and waste levies from the State Government.

Funding for the specific projects currently funded by the special rate variation is not available from other general revenue. Without the special rate variation, if Council determined to continue funding these additional road renewal works, then it would need to reduce the range and/or quality of other services that it delivers to the community.

The special rate variation options are to:

- Discontinue the special rate variation - with a resultant reduction in rates payable; and reduced expenditure on road renewals or a reduction in other services; or
- Retain the existing special rate variation – with a resultant increase in rates in line with the legislated rate cap limit of 3.4%, existing service levels being maintained and approximately \$1.5 million in additional funds being spent on roads in 2013-14.

The focus of the special rate variation application would be to fund renewal of the public road network via resealing, heavy patching and rehabilitation of regional roads, urban collector roads, and rural collector roads in the local government area.

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2. Community awareness of the need for and extent of a rate rise

Table 1 summarises the timeframes for applications for special rates variations for 2013-14:

Table 1: Special Rate Variations – Timeframes

Task	Timeframe
DLG releases Special Rate Variation guidelines	2 November 2012
Deadline for councils to notify of their intention to apply for a special rate variation	14 December 2012
Applications for special rate variations due to IPART	11 March 2013
IPART determines applications	Mid-June 2013

As reported to Council in December 2012, Council's community engagement process for the integrated planning and reporting program includes a variety of elements to inform and consult with the community. The proposed special rate variation is an important component of the integrated planning and reporting program and includes some specific consultation elements:

Community research was undertaken in July 2012 to ascertain the level of community support for the continuation of the special rate variation.

Advertising and publicity about the special rate variation will include:

- Media release to all media outlets
- Mayoral column in the Cessnock Advertiser in February 2013
- Cessnock Advertiser advertisements in February 2013
- Greta Branxton Vineyard News advertisement in February 2013

In addition, four community presentations about the special rate variation will be scheduled. At these sessions, Council officers will provide information about the special rate variation process and the impact of continuing or discontinuing with the proposed special rate variation. These sessions will be followed by a discussion on the Community Strategic Plan, *Cessnock 2020*, and a confirmation that the vision, desired outcomes, objectives and strategic directions still reflect the community's aspirations.

Presentations have been scheduled in each Ward as follows:

- 6.00-8.00pm Tuesday 19 February 2013 - Cessnock Performing Arts Centre
- 1.00-3.00pm Thursday 21 February 2013 – Branxton RSL Sub-Branch Community Hall
- 5.30–7.30pm Thursday 21 February 2013 – Kurri Kurri Community Centre
- 6.00-8.00pm Tuesday 26 February 2013 – Wollombi Community Hall

In addition, information on the proposed special rate variation will be placed on Council's website, including:

- Several fact sheets including information on special rate variations, the range of services provided by Council, the works that Council funded from the current special rate variation, and the current condition of Council's road network;

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- A rates calculator so that ratepayers can work out an indicative rate payment for 2013-14 with and without the continuation of the special rate variation; and
- A Community Feedback Survey which will be used to gauge ratepayer opinions about the proposed rate increase.

The Community Feedback Survey will be quite short and provide the opportunity for members of the community to indicate their preference about whether or not to continue with the special rate variation. It will be available in a number of forms and at various locations including:

- On-line on Council's website;
- Hard copy distribution at the Council Administration Centre, Cessnock and Kurri Kurri Libraries;
- In the Cessnock Advertiser accompanying the advertising about the special rate variation options in February 2013; and
- Distribution at community presentations.

Following the consultation period, community feedback will be collated and reported to Council at the Council meeting on 6 March 2013.

Council will consider the Draft Community Strategic Plan (*Cessnock 2023*), the Draft 2013-17 Delivery Program and the Draft 2013-14 Operational Plan and budget during April this year and publicly exhibit them during May 2013. These documents will then be adopted in June 2013 after the outcome of the special rate variation is determined by IPART.

3. *Reasonable impact on ratepayers*

A full assessment of the impact on all ratepayers will be provided as required in the application. Feedback received during the consultation period will assist with this assessment.

4. *Realistic assumptions in the proposed Delivery Program and Long-Term Financial Plan*

Council's special rate variation application will include an updated assessment of the long-term funding requirements to maintain Council's road network at the standard required by the community. It will be noted in the application that during 2014-15 Council intends to seek a further special rate variation that is in alignment with the integrated planning documents that are to be adopted in June 2013.

5. *An explanation of productivity improvements and cost containment strategies the council has realised in past years and plans to realise over the proposed special variation period.*

As part of Council's special rate variation application, an analysis of Council's past improvements will be prepared and the plans for the efficiency initiatives over the coming twelve months will be outlined.

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CONSULTATION

Leadership Group
Strategic & Sustainability staff
Finance staff

STRATEGIC LINKS

Delivery Program

This report aligns with the community's desired outcome of *Civic Leadership and Effective Governance* – in particular, Objective 5.2 to encourage more community participation in decision making.

STATUTORY IMPLICATIONS

a. Policy and Procedural Implications

N/A

b. Financial Implications

If Council does not apply for, or is unsuccessful with, the special rate variation application, it will lose the additional rate income it has been receiving for the past seven years (approximately \$1.5 million in the 2012-13 year).

In the first instance, this will result in a reduction in spending on Council's road network. Alternatively, Council may consider decreasing service levels for other Council activities.

c. Legislative Implications

Councils that want to increase their rates above the statutory limit in order to fund the service levels required to make application for a special rate variation under Section 508A or 508(2) of the Local Government Act.

Under a Section 508A variation, a Council is able to phase-in a potentially significant rate increase over 2-7 years (rather than have a substantial increase in rates in the one year) and this increase then remains permanently in the rate base.

Section 508(2) applications enable a one-off percentage increase that remains permanently in the rate base or a one-off percentage increase for a fixed period after which the rate base is adjusted back to the rate peg path.

d. Risk Implications

Failure to adequately consult with the community will jeopardise the likelihood of the special rate application being approved by IPART.

e. Other Implications

N/A

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OPTIONS

Council could choose not to apply for a special rate variation. This will result in the cessation of the additional road works currently being funded by the current Section 508(2) variation.

CONCLUSION

In order to continue to fund additional reseals, heavy patching and rehabilitation of the road network in 2013-14; Council needs to make application for a one-year extension of the existing special rate variation under Section 508(2).

ENCLOSURES

There are no enclosures for this report.

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SUBJECT: SPECIAL RATE VARIATION

MOTION **Moved:** Councillor Maybury **Seconded:** Councillor Stapleford

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2. That Council endorse the community consultation strategy outlined in this report.
3. That Council receive a further report detailing the results of the community consultation on the proposed special rate variation.

AMENDMENT **Moved:** Councillor Ryan **Seconded:** Councillor Olsen

1. That Council proceed with the preparation of an application to seek a one-year extension to the existing special rate variation under Section 508(2) of the Local Government Act to be submitted to IPART by 11 March 2013.
2. That Council endorse the community consultation strategy outlined in this report together with further direct consultation of the community.
3. That Council receive a further report detailing the results of the community consultation on the proposed special rate variation.

FOR

Councillor Pynsent
Councillor Burcham
Councillor Doherty
Councillor Wrightson
Councillor Olsen
Councillor Ryan
Councillor Hawkins
Councillor Smith
Councillor Campbell
Councillor Parsons

Total (10)

AGAINST

Councillor Stapleford
Councillor Maybury

Total (2)

The amendment was **PUT** and **CARRIED** and as such became the **MOTION**.

The **MOTION** was then **PUT** and **CARRIED**.